

MANAGEMENT OF SURPLUS QUARTERS

Executive Summary

1. It is the Government's policy to provide quarters to eligible civil servants as a type of housing benefits or for operational need. As at October 2013, there were 708 non-departmental quarters (NDQs) managed by the Civil Service Bureau (CSB), 22,543 departmental quarters (DQs) and 179 post-tied quarters managed by various bureaux/departments (B/Ds). The Government Property Agency (GPA) is responsible for formulating and reviewing policy on the provision, standards and management of quarters, ensuring their proper utilisation and management, and arranging purchase, leasing and disposal of them. As at 31 December 2013, 39 GPA staff were directly involved in management of quarters. The related expenditure was \$354.4 million for 2013-14.

2. With the introduction of the Home Financing Scheme in October 1990, new appointees to the Civil Service are not eligible for NDQs. As a result, the demand for NDQs has gradually decreased. With the implementation of various re-engineering of the process of service delivery and other changing circumstances, some government departments were able to reduce their accommodation requirements. As at October 2013, there were 198 surplus NDQs leased and/or pending disposal by the GPA. In 2001, the GPA took over from the Housing Department (HD) seven blocks of surplus quarters. As at October 2013, two blocks had been used as quarters by disciplined services departments and the remaining five were pending redevelopment. Five other departments also had a total of 498 surplus quarters not yet put into use, of which 330 units (66%) were held by the Water Supplies Department (WSD). As surplus quarters are valuable assets, the Audit Commission (Audit) has recently conducted a review of the management of these surplus quarters.

Disposal of surplus NDQs by the GPA

3. In 1996, Audit conducted a review on "Management of surplus NDQs". The Public Accounts Committee (PAC) held the view that the selling of surplus NDQs and NDQs sites to generate revenue should be the ultimate objective of the Administration as the Government was not supposed to function as a landlord or

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agent for leasing properties. The PAC recommended that the CSB Working Group should consider practical ways to dispose of all surplus NDQs within a reasonable specified time frame. This was accepted by the Administration (paras. 2.2 and 2.3).

4. ***Stock of surplus NDQs.*** Surplus NDQs held by the Financial Secretary Incorporated (FSI) may be sold by the GPA en bloc or individually. Of the 198 surplus NDQs as at October 2013, 114 were FSI-owned, with 90 in the leasing pool and 24 on the sale list. 69 of the 90 FSI-owned NDQs in the leasing pool had been transferred to the GPA for 15 to 17 years. While the GPA had made attempts to sell these 69 NDQs before 1998, 19 of them had not been put up for sale since then. There was a need to sell the FSI-owned surplus NDQs within a reasonable time frame (paras. 2.4 and 2.7 to 2.9).

5. ***Sale of NDQs units by public auction.*** From 2008 to 2013, the sale of NDQs was suspended on three occasions (lasting 25 months) due to the financial crisis and downturn of property market. During the 47 months when sale resumed, the GPA sold 71 NDQs by 1 public tender and 8 public auctions. As at October 2013, there were 24 FSI-owned NDQs on the sale list and 12 of them had been on the list for two to six years. NDQs on the sale list were no longer available for leasing and did not generate revenue during the holding period. They should be put on the market for sale. Audit noted that there was scope for expediting the sale of surplus NDQs stock through better public auction arrangements (such as increasing the frequency of public auction) when the sale programme resumed (paras. 2.12 to 2.15).

HD's surplus quarters transferred to the GPA

6. ***Management of surplus quarters.*** In 2001, the HD transferred seven blocks of its surplus quarters (167 of the total 228 Grades F and H units were then vacant) to the GPA on the basis that better utilisation of the premises would be achieved. As agreed between the GPA and HD, three blocks were vacated by 2002 and four blocks were designated for decanting. Of the three vacant blocks, only one was put into use in 2002. From 2002 to 2005, the GPA explored interim uses of the other two vacant blocks but in vain. Meanwhile the four blocks for decanting had decreasing number of occupants. It was only in 2007 and 2008 that the GPA invited the disciplined services departments to bid for the use of the six blocks (two vacant and four with decreased number of occupants) although these departments had great demands for these grades of quarters. As at October 2013, two of the seven blocks

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had been put into use as disciplined services quarters (one in 2002 and the other in 2009). The remaining five blocks (three had been demolished and two entirely vacated) were pending redevelopment as disciplined services quarters under four capital works projects (paras. 3.4 to 3.13, 3.22 and 3.25 to 3.29).

7. ***Project planning process.*** In four redevelopment projects, the planning process for the Tsz Wan Shan and Kwun Tong sites had taken over six years and five years respectively before they were included in the Capital Works Programme. The long time taken was caused by factors including significant changes in cost estimates/project scope and long lead time in resolving technical issues. There is a need for the Architectural Services Department to work with relevant departments to define clearly key project requirements and planning parameters at an early stage (para. 3.37).

Surplus quarters of the WSD

8. ***Management of surplus quarters.*** In 2001, the WSD had 491 DQs which were used to accommodate operational staff serving at the waterworks installations nearby. The WSD considered that there were no longer strong operational needs for retention of most DQs. From 2001 to 2013, 378 surplus quarters of the WSD in various locations were declassified as surplus accommodation. However, up to December 2013, only 48 surplus accommodation units had been put into other departmental uses. There were delays in implementing the WSD's action plan of 2010 for co-locating quarters occupants which could have released more vacant premises for alternative uses at an early date and minimised recurrent cost in maintaining under-utilised premises. There were also delays in taking action in accordance with an Accommodation Circular issued in April 2008 to relinquish vacant premises for consideration of alternative uses by other departments (paras. 4.4 to 4.7, 4.13 to 4.15 and 4.18 to 4.20).

9. ***Monitoring the utilisation of surplus accommodation.*** Since 2005, the GPA has required B/Ds to report in annual returns vacant specialist and departmental buildings/premises under their control. Based on the returns, the GPA provides progress reports to the Property Strategy Group for monitoring the utilisation of these vacant buildings/premises. Audit examination revealed that the WSD had not reported in its 2012-13 return 147 surplus accommodation units in partially occupied premises and there were delays of one to eight years in reporting ten vacant premises (paras. 4.24 and 4.25).

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Way forward

10. Besides the WSD, four other departments had a total of 168 surplus accommodation units not yet put into use as at October 2013. In the light of the management problems of surplus accommodation identified in the case of the WSD, there is a need for these four departments to take measures to prevent similar problems (para. 5.5).

Audit recommendations

11. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Government Property Administrator should:**

- (a) **dispose of the surplus FSI-owned NDQs units by sale within a reasonable time frame (para. 2.20(a));**
- (b) **improve the arrangements for the sale of surplus NDQs units by public auction (para. 2.20(b));**
- (c) **take effective measures to ensure that surplus quarters under the GPA's purview are put into gainful use and strengthen its coordinating role in assisting departments to resolve their problems of surplus quarters or shortage in quarters (para. 3.38(a) and (b));**
- (d) **assist the WSD in putting its surplus accommodation into gainful use as soon as possible (para. 4.29(c));**
- (e) **step up control to ensure that the information on surplus accommodation (both converted to departmental use or not yet put into use) reported by B/Ds in their annual returns is accurate and complete (para. 4.29(e));**
- (f) **make effective use of the annual returns provided by B/Ds for monitoring the utilisation of the surplus accommodation (para. 5.5(a)); and**

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- (g) render necessary assistance to the four departments which also had surplus accommodation not yet put into use as at October 2013 with a view to optimising the use of government resources (para. 5.5(b)(ii)).
12. **Audit has also *recommended* that:**
- (a) the Director of Architectural Services should work with project proponent departments to define clearly key project requirements at the beginning of the planning process with a view to providing advice on the cost and programme more accurately (para. 3.39(a)); and
 - (b) the Director of Water Supplies should:
 - (i) expedite action to co-locate quarters occupants with a view to releasing vacant quarters premises for alternative use and minimising the cost in maintaining under-utilised quarters premises (para. 4.28(d)); and
 - (ii) take measures to ensure that prompt action on surplus accommodation is taken in accordance with the Accommodation Circular requirements (para. 4.28(e)).

Response from the Administration

13. The Administration agrees with the audit recommendations.