

CHAPTER 2

**Transport and Housing Bureau
Hong Kong Housing Authority
Housing Department**

**Planning, construction and redevelopment of
public rental housing flats**

**Audit Commission
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PLANNING, CONSTRUCTION AND REDEVELOPMENT OF PUBLIC RENTAL HOUSING FLATS

Contents

	Paragraph
EXECUTIVE SUMMARY	
PART 1: INTRODUCTION	1.1 – 1.12
Audit review	1.13 – 1.14
Acknowledgement	1.15
PART 2: PLANNING FOR THE PROVISION OF PUBLIC RENTAL HOUSING FLATS	2.1
Assessment of public housing supply and demand	2.2 – 2.21
Audit recommendations	2.22
Response from the Administration	2.23
Meeting the pledged production targets	2.24 – 2.30
Audit recommendations	2.31
Response from the Administration	2.32
Supply of land for public housing	2.33 – 2.55
Audit recommendations	2.56
Response from the Administration	2.57

	Paragraph
Long process and time taken to develop sites	2.58 – 2.68
Audit recommendations	2.69
Response from the Administration	2.70
 PART 3: MANAGEMENT OF PUBLIC RENTAL HOUSING CONSTRUCTION PROJECTS	 3.1
Monitoring progress of construction projects	3.2 – 3.13
Audit recommendations	3.14
Response from the Administration	3.15
Monitoring costs of construction projects	3.16 – 3.21
Audit recommendation	3.22
Response from the Administration	3.23
 PART 4: REDEVELOPMENT OF PUBLIC RENTAL HOUSING ESTATES	 4.1 – 4.3
Comprehensive Structural Investigation Programme	4.4 – 4.11
Audit recommendation	4.12
Response from the Administration	4.13
Refined Policy on Redevelopment	4.14 – 4.24
Audit recommendations	4.25
Response from the Administration	4.26

	Paragraph
Exploring future redevelopment potential	4.27 – 4.31
Audit recommendations	4.32
Response from the Administration	4.33
 PART 5: WAY FORWARD	 5.1
Higher production target to meet increasing demand for public rental housing	5.2
Challenges ahead	5.3
Review of the Long Term Housing Strategy	5.4 – 5.6
Audit recommendation	5.7
Response from the Administration	5.8
 Appendices	 Page
A : Housing Department: Organisation chart (extract) (31 December 2013)	66
B : The Committee on Housing Development	67
C : Diagrammatic illustration of the methodology for assessing long-term housing demand for new PRH flats	68
D : Steering Committee on Land Supply	69
E : Committee on Planning and Land Development	70 – 71
F : Bureaux and departments involved and their roles/ responsibilities in land supply	72 – 73

Appendices	Page
G : Land Supply Tracking Subcommittee of Committee on Planning and Land Development	74 – 75
H : Technical studies for potential public housing sites in the planning process	76
I : Case 1: Shui Chuen O Estate (Shatin Area 52)	77 – 78
J : Case 2: Ex-Yuen Long Estate	79 – 80
K : Case 3: Inverness Road Kowloon City site	81 – 82
L : Case 4: Ex-Homantin Estate redevelopment site	83 – 84
M : Strategic Planning Committee and Building Committee	85 – 86
N : Case 5: Tuen Mun Area 18 project	87
O : Case 6: Redevelopment of Tung Tau Estate Block 22	88 – 89
P : Case 7: Redevelopment of Pak Tin Estate	90 – 91
Q : Case 8: Phases 3, 6 and 7 of Shek Kip Mei Estate	92 – 93
R : Case 9: Shek Lei (II) IH	94 – 95
S : Acronyms and abbreviations	96 – 97

PLANNING, CONSTRUCTION AND REDEVELOPMENT OF PUBLIC RENTAL HOUSING FLATS

Executive Summary

1. The Hong Kong Housing Authority (HA) is a statutory body established under the Housing Ordinance (Cap. 283) to implement the majority of Hong Kong's public housing programme, including public rental housing (PRH) to assist low-income families who cannot afford private rental accommodation. The Housing Department (HD) is the executive arm of the HA. The HA maintains a Waiting List (WL) of PRH applicants. The HA's current target is to maintain the average waiting time (AWT) for PRH at around three years for general applicants. As at end of December 2013, there were 121,100 general applicants on the WL. The current-term Government has made housing a top priority. As stated in the Policy Address of January 2014, the Government has decided to accept the recommendation of the Long Term Housing Strategy (LTHS) Steering Committee (set up in September 2012) to provide 200,000 PRH units as the new public supply target for the coming 10 years, which is a much higher production target compared to that of 150,000 PRH units set prior to 2013. The Audit Commission (Audit) has recently conducted a review to examine the planning, construction and redevelopment of PRH flats.

Planning for the provision of public rental housing flats

2. *Assessment of public housing supply and demand.* The Government had until recently used a mechanism for assessing, on an annual basis, the long-term housing demand for both private and public housing over a 10-year period. In order to determine the quantum of PRH production required to meet the AWT target of about three years, the HD had used a statistical model for assessing the demand for new PRH. The results of the housing demand assessment were reported annually to the Committee on Housing Development (CHD) for endorsement. Audit noted that, in the four years from 2008-09 to 2011-12, despite the increasing 10-year PRH demand as projected by the HD and endorsed by the CHD (from 151,900 to 186,100), the 10-year PRH production targets had remained unchanged at 150,000,

Executive Summary

resulting in projected shortfalls in PRH production. Such projected shortfalls had remained relatively low (1% to 8%) initially, but increased to 19% for the forecast period 2011-12 to 2020-21. However, Audit noted that the HD no longer followed the established mechanism for assessing the long-term PRH demand since 2012-13 because the LTHS Steering Committee had adopted a new methodology for assessing the long-term housing demand and had made a timely recommendation to increase production target to 200,000. However, given that the target of maintaining the AWT at about three years is widely known and has been accepted as the measurement for timeliness in satisfying the PRH demand, Audit considers that the HD needs to continue to conduct assessments of long-term PRH demand periodically, duly taking into account the target (paras. 2.6, 2.9, 2.10 and 2.16 to 2.19).

3. ***Shortfall in the supply of PRH in the 10-year projection.*** Audit examination of the HD's projections has revealed that the production forecast for the first five-year period from 2012-13 to 2016-17 is about 79,000 PRH flats. For the second five-year period from 2017-18 to 2021-22, the Government had identified sufficient sites to produce more than 100,000 PRH flats. Although this means that more than 179,000 flats would be produced for the 10-year period, Audit notes that there is still a projected shortfall of supply when compared to the new production target of 200,000 PRH flats (para. 2.27).

4. ***Increasing AWT expected.*** The increase in PRH demand and the shortage in PRH supply would have a negative impact on the Government's target of maintaining the AWT for general PRH applicants at around three years. Based on the HD's projections, the AWT for general applicants would reach 3 years by 2014-15 and further increase, in a few years' time, to a level well above 3 years. As the AWT is an important benchmark for assessing the timeliness in satisfying PRH demand, it is important for the HD to ascertain and monitor the quantum of PRH units required to maintain the AWT at or around three years and to closely monitor significant projected production shortfall and projected deterioration of AWT (paras. 2.29 and 2.30).

5. ***Shortage of land supply.*** Land supply is the major factor affecting the PRH production. The major source of land supply for PRH comes from the Government. It is imperative for the HD to secure an adequate supply of land from the Government for PRH production. Audit examination however revealed that subject to resolving many technical issues, local objections and necessary rezoning,

Executive Summary

there is still a shortfall of 38 hectares of land based on the LTHS production target of 200,000 PRH flats for the next 10 years (see para. 1 above). To increase land supply for PRH, the Government is exploring possible sources, such as reclamation, opening up new areas, and site redevelopment. However, the complicated process and lengthy time involved in planning and land development present many challenges (paras. 2.33, 2.46 and 2.47).

6. ***Public housing sites returned to the Government.*** During the period 2001 to 2013, the HA had returned 24 PRH redevelopment sites to the Government for other uses. In exchange for these sites, the Government provided replacement sites to the HA for PRH development. Audit however found that in some cases, it took the HA a long time to develop the sites. For example, for the 13-hectare site at Shatin Area 52 (Case 1), the housing estate was originally expected to be completed in 2005 when it was first included in the HD's production programme in 1999. Due to changes in the housing policy and various considerations through the years, the site was returned to the Government. It was not until 2009 that the site was again included in HD's production programme. Construction would only be completed in 2015. For a number of returned sites, the development costs incurred by the HA aggregating \$209 million had to be written off from its financial statements in 2011-12 and 2012-13 (paras. 2.60 to 2.62).

Management of public rental housing construction projects

7. ***Monitoring progress of construction projects.*** After a land site was ready for construction, it normally took the HD around 3.5 years to carry out the construction work. According to the 2012-13 public housing construction programme, six PRH projects would be completed in 2012-13 involving the production of 13,114 flats. Audit found that there had been some project delays, ranging from 2 to 7 months, in these six projects. According to the HD, the delays were mainly due to extra inclement weather and some legitimate or genuine grounds for extension of time that the contractors were entitled to. However, such project delays not only affect the timely delivery of PRH flats which were in great demand, but may also cause great inconvenience to the incoming tenants and lengthen their actual waiting time for PRH (paras. 3.9, 3.12 and 3.13).

Executive Summary

8. *Monitoring costs of construction projects.* The HD has a system in place to monitor and control the costs of construction projects. Audit analysed the six projects completed in 2012-13. All of them involved budget revisions due to changes in construction cost yardsticks, award of contracts, or contract price fluctuations. Audit found that the actual/estimated costs of these six completed projects were within the approved budgets. However, in three of the six projects, there were large variances (27% to 37%) of the actual/estimated costs from the original budgets. There is room for improving the budgeting, monitoring and management of PRH project costs. According to the 2014-15 Budget Speech of 26 February 2014, the HA will have an estimated balance of \$68 billion at the end of 2013-14, which can meet the funding requirement of the development programme for the next four years; however, to achieve the new housing production target, the HA must keep enhancing cost-effectiveness and sustainability of modus operandi in the long run (paras. 3.16, 3.20 and 3.21).

Redevelopment of public rental housing estates

9. *Comprehensive Structural Investigation (CSI) Programme.* The CSI Programme, rolled out in 2005, includes a detailed investigation which aims to determine the material strength and rate of deterioration of the structural elements of a building. The findings would facilitate the consideration and planning of the necessary follow-up actions such as monitoring, repair or clearance. Demolition will be considered for structurally unsafe blocks and blocks beyond economic repair. For other blocks, appropriate works would be arranged to sustain the buildings for at least 15 years before another detailed CSI. Up to January 2014, 26 old estates built in 1980 or earlier had been assessed under the CSI Programme and found to be structurally safe. Only So Uk Estate and Tung Tau Estate Block 22 were recommended for redevelopment because the estimated structural repair costs were not economically viable. Audit found that, based on the experience of the redevelopment of Tung Tau Estate Block 22, the process of redevelopment could take many years and the build-back potential of the site required careful analysis and planning. In consideration of the resource demand and the anticipated amount of works involved, the HD currently conducts the CSI for only 3 to 4 estates per year. Audit notes that there are 42 estates included in the CSI Programme covering the period from 2005 to 2018. More estates would likely be included in the next CSI Programme beyond 2018. The existing resources for investigating 3 to 4 estates per year might not be sufficient to cope with the work load in future (paras. 4.5 to 4.11).

Executive Summary

10. ***Refined Policy on Redevelopment.*** To meet the high demand for public housing, the HA explores the scope for building more flats through redevelopment of existing PRH estates with a plot ratio lower than the maximum permissible. In November 2011, the HA implemented the Refined Policy on Redevelopment of aged PRH estates by considering the build-back potential and the availability of nearby rehousing resources. Under the Refined Policy on Redevelopment, the build-back potential is a key factor to be considered for the redevelopment of PRH estates. At the time of introduction of the Refined Policy, CSI had been completed for 26 old estates, but 22 had not been assessed for their build-back potential. Up to December 2013, Pak Tin Estate was the only estate identified for redevelopment after passing CSI. For Pak Tin Estate, in January 2012, the HA endorsed the plan for its redevelopment. However, Audit found that new lifts had been installed at a cost of about \$32 million shortly before the decision to launch the redevelopment of Pak Tin Estate and less than one year after the installation of the new lifts, 94% of the tenants had moved out (Case 7). The HD should have better coordination within the department so that resources would not be wasted due to the launching of redevelopment plan shortly after the completion of improvement works in an estate in future (paras. 4.17, 4.18, and 4.20 to 4.24).

11. ***Better utilisation of vacant sites and Interim Housing (IH) blocks.*** Audit found that some PRH redevelopment sites which had been cleared a number of years ago were still left undeveloped. An example is the Phases 3, 6 and 7 of Shek Kip Mei Estate (Case 8). The HD needs to explore the better use of its existing land resources and explore the feasibility and expedite the process of putting the vacant sites into beneficial uses. Furthermore, as at January 2014, the HA had three IH estates, namely Shek Lei (II) IH, Long Bin IH (targeted to be cleared in January 2016) and Po Tin IH, which provided a total of 4,914 units, but had a vacancy rate of 60%, 40% and 8% respectively. In view of the age, increasing maintenance cost and high vacancy rates, the HD needs to explore measures to make better use of these resources (paras. 4.27 and 4.29).

Way forward

12. There has been an increasing demand for PRH flats in recent years. As at end of December 2013, the AWT for PRH was 2.9 years. The Government has accepted the LTHS Steering Committee's recommendation to adopt a higher 10-year target of 470,000 units for new public and private housing supply (with public

Executive Summary

housing accounting for 60% of this target). There are challenges facing the HA and the Administration in planning, construction and redevelopment of PRH estates for meeting the production target for public housing and the three-year AWT target (paras. 5.2 and 5.3).

Audit recommendations

13. **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 Director of Housing should:**

Planning for the provision of PRH flats

- (a) **continue to perform the assessment of long-term PRH demand annually and report the results for endorsement by the CHD and updating of the total housing demands of the LTHS (para. 2.22);**
- (b) **step up efforts to increase PRH production with a view to meeting the 10-year production targets, taking into account the need to maintain the AWT at about three years for general applicants (para. 2.31(b));**
- (c) **liaise closely with the Development Bureau and the Planning Department to secure sufficient number of suitable sites and discuss how best to make use of the identified sites to meet the new PRH production target (para. 2.56(a));**
- (d) **take into consideration the projected long-term PRH demand and the production targets under the LTHS in his discussions with the relevant bureaux and departments about the return of public housing sites to the Government for other uses (para. 2.69(a));**

Management of PRH construction projects

- (e) **closely monitor the PRH construction projects and take early remedial actions on project delays, in order to ensure their timely completion (para. 3.14(b));**

Executive Summary

- (f) continue enhancing its system of budgeting and monitoring of project costs with a view to further improving the accuracy of budgeting for PRH construction projects (para. 3.22);

Redevelopment of PRH estates

- (g) critically assess the resource requirements for the CSI and plan ahead for the implementation of the next CSI Programme (para. 4.12);
- (h) expedite the detailed assessment of the build-back potential for all aged PRH estates with CSI completed (para. 4.25(b));
- (i) closely monitor the demand and supply of IH flats and their vacancy rates and explore the feasibility for their redevelopment (para. 4.32(a));
- (j) explore the feasibility of putting the vacant HA sites into beneficial uses (para. 4.32(b)); and
- (k) duly take into account experiences from the previous PRH redevelopment projects in planning for future redevelopment, with a view to optimising land, manpower and financial resources (para. 4.32(c)).

14. Audit has also *recommended* that the Secretary for Transport and Housing should take on board the audit observations and recommendations in this Audit Report when formulating and implementing the LTHS (para. 5.7).

Response from the Administration

15. The Director of Housing agrees with the audit recommendations. The Secretary for Transport and Housing has said that Audit's observations and recommendations would be taken into account in formulating the LTHS.

PART 1: INTRODUCTION

Background

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

1.2 Housing in Hong Kong is provided through three channels, namely private housing, public rental housing (PRH), and subsidised home ownership housing (primarily Home Ownership Scheme (HOS) flats). PRH and subsidised home ownership housing are primarily provided by the Hong Kong Housing Authority (HA).

1.3 The HA (Note 1) was established in 1973 as a statutory body under the Housing Ordinance (Cap. 283). It is responsible for implementing the majority of Hong Kong's public housing programme, including PRH to assist low-income families who cannot afford private rental accommodation.

1.4 The Housing Department (HD), as the executive arm of the HA, provides secretarial and executive support to the HA and its committees. The HD also supports the Transport and Housing Bureau (THB) in dealing with all housing-related policies and matters. The HD is headed by the Permanent Secretary for Transport and Housing (Housing) who also assumes the office of the Director of Housing. To help forge closer collaboration between the HA and the Government in the provision of public housing services, the Secretary for Transport and Housing and the Director of Housing have respectively assumed the positions of the Chairman and Vice-chairman of the HA. Appendix A shows an extract of the organisation chart of the HD.

Note 1: *As at end of December 2013, the membership of the HA comprised 25 non-official members and four official members. Appointments are made by the Chief Executive of the Hong Kong Special Administrative Region. Six standing committees together with a number of sub-committees are formed under the HA to formulate and oversee policies in specified areas.*

Introduction

1.5 As at end of December 2013, the HA had a stock of about 742,000 PRH flats in 210 estates, accommodating some 2 million people (721,000 households) or about 30% of Hong Kong's total population. The operating income and expenditure for PRH in 2013-14 are estimated at \$11.9 billion and \$12.7 billion respectively (i.e. an operating deficit of about \$0.8 billion). The construction expenditure for 2013-14 is budgeted at \$9.9 billion (Note 2).

PRH production

1.6 One of the HA's strategic objectives is to facilitate the cost-effective provision of quality PRH. The HD is responsible for the provision of PRH including, among others, the planning, construction and redevelopment of PRH flats. The Development and Construction Division (DCD) is responsible for the new production of PRH (see Appendix A). As at 31 December 2013, out of a strength of 8,848 staff in the HD, about 2,135 staff worked in the DCD.

1.7 Public housing resources are valuable and heavily subsidised. According to the HD, the average construction cost for a PRH flat is about \$700,000 (not including the land cost), and it takes about five years to complete a project containing PRH flats, from site inception to works completion. Table 1 shows the number of PRH flats built by the HD between 2003-04 and 2012-13. It can be seen that the annual production of new PRH flats fluctuated between a high of 24,682 in 2004-05 and a low of 7,192 in 2006-07, with an average of 15,031 for the 10-year period 2003-04 to 2012-13.

Note 2: *The sum is accounted for as construction in progress assets during the construction of the flats and transferred to fixed assets on completion of construction.*

Table 1

**Annual PRH production
(2003-04 and 2012-13)**

Financial year	Number of units
2003-04	15,148
2004-05	24,682
2005-06	17,153
2006-07	7,192
2007-08	13,726
2008-09	19,050
2009-10	15,389
2010-11	13,672
2011-12	11,186
2012-13	13,114
Average	15,031

Source: HD records

Increasing demand for PRH

1.8 The HA maintains a Waiting List (WL) of PRH applicants. The HA's current target is to maintain the average waiting time (AWT — Note 3) at around three years for general applicants (including both family applicants and single elderly applicants) and around two years for single elderly applicants. Non-elderly one-person applicants are placed under the Quota and Points System (QPS). No target is set on the AWT for applicants under the QPS.

Note 3: *The HA defines waiting time for PRH as the period between registration on the WL and the first housing offer, excluding any frozen period in between. The AWT for general applicants is the average of the waiting times up to the first housing offers for all general applicants who were housed in the past 12 months.*

Introduction

1.9 In recent years, there has been an increasing demand for PRH. Table 2 shows the number of applicants on the WL for PRH in the 10-year period 2003-04 to 2012-13. As at end of December 2013, there were about 121,100 general applicants and about 122,200 non-elderly one-person applicants under the QPS on the WL. The large number of WL applicants indicates a great demand for PRH. This also puts immense pressure on the HA in meeting the AWT target of around three years for general applicants.

Table 2
Number of applicants on the WL for PRH
(2003-04 to 2012-13)

Date	Number of applicants on the WL for PRH (Note 1)	
	General applicant	Non-elderly one-person applicant
31.3.2004	91,000	— (Note 2)
31.3.2005	91,400	— (Note 2)
31.3.2006	97,400	— (Note 2)
31.3.2007	70,500	36,700
31.3.2008	73,100	38,500
31.3.2009	71,700	42,700
31.3.2010	77,800	51,300
31.3.2011	89,100	63,400
31.3.2012	101,700	87,800
31.3.2013	116,900	111,500

Source: HD records

Note 1: Figures are rounded to the nearest hundred.

Note 2: Prior to the introduction of the QPS in September 2005, all PRH applicants were considered applicants on the WL for PRH and there was no formal classification into “non-elderly one-person applicants” and “general applicants”. Statistics on the QPS (including the number of non-elderly one-person applicants) are only available starting from 2006-07.

Higher production target set for PRH

1.10 ***2013 Policy Address.*** The current-term Government has made housing a top priority. PRH remains the basic strata of the housing ladder. It is the Government's target to provide PRH to low-income families who cannot afford private rental accommodation. According to the Policy Address of January 2013, the Government would increase the supply of PRH, and adopt a target of producing 75,000 new PRH flats over the five years from 2012-13 and at least 100,000 units in total for the five years starting from 2018.

1.11 ***Long Term Housing Strategy (LTHS) Review.*** The Government embarked on the LTHS Review in October 2012. A public consultation on the LTHS was conducted by the LTHS Steering Committee, which ended on 2 December 2013. The report on the public consultation was submitted to the Government in February 2014. According to the report, the public generally concurs that the Government should adopt a supply-led strategy to resolve the housing problem. There is considerable public support for the long-term housing supply target of 470,000 units for the coming 10 years as recommended by the Steering Committee, with public housing accounting for at least 60% or about 280,000 units of the new housing production. The Government will take account of the consultation report and other views collected during the consultation in formulating the LTHS which is expected to be announced later in 2014.

1.12 ***2014 Policy Address.*** As stated in the Policy Address of January 2014, the Government has decided to accept, in advance, the LTHS Steering Committee's recommendation to adopt 470,000 units as the new public and private total supply target for the coming 10 years. Within public housing, the Government aims to provide an average of about 20,000 PRH units and about 8,000 HOS units per annum over the 10-year period, i.e. a total of 280,000 public housing units (about 60% of the housing supply target). This is a much higher production target compared to the previous one and is likely to exert significant pressure on the HA and the Government in the next few years.

Audit review

1.13 *Audit review of October 2013.* In October 2013, the Audit Commission (Audit) completed a review to examine the allocation and utilisation of PRH flats. The review found that there was room for improvement in a number of areas including allocating flats to people in need of PRH, maximising the rational utilisation of PRH flats, and tackling abuse of PRH. The review results were included in the Director of Audit's Report No. 61 of October 2013.

1.14 Against the above background, and in view of the higher production target set for PRH (see paras. 1.10 to 1.12), Audit conducted a review to examine the planning, construction and redevelopment of PRH flats. The audit review focused on the following areas:

- (a) planning for the provision of PRH flats (PART 2);
- (b) management of PRH construction projects (PART 3);
- (c) redevelopment of PRH estates (PART 4); and
- (d) way forward (PART 5).

Audit has found room for improvement in the above areas, and has made a number of recommendations to address the issues.

Acknowledgement

1.15 Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the THB, the Development Bureau (DevB), the HA, the HD, the Lands Department (LandsD) and the Planning Department (PlanD) during the course of the audit review.

PART 2: PLANNING FOR THE PROVISION OF PUBLIC RENTAL HOUSING FLATS

2.1 This PART examines the HD's planning for the provision of PRH flats to people in need. The following issues are discussed:

- (a) *Assessment of public housing supply and demand.* Audit noted that the Government had until recently adopted a mechanism for assessing the long-term housing demand, which was similar to the approach adopted by the LTHS Steering Committee. Despite increasing projected demands for PRH in the past few years, the previous PRH production targets had not been increased accordingly until 2013 (see paras. 2.2 to 2.23);
- (b) *Meeting the pledged production targets.* Audit noted that, despite ups and downs in the annual PRH production, between 2003-04 and 2012-13, the previous 10-year production target of 150,000 had generally been met. However, with reference to the much higher production target recently announced for the next 10 years, the HD's latest PRH production forecast has revealed that there would be a projected shortfall in supply. The analysis also shows that the AWT for general applicants would, in a few years' time, increase to a level well above the benchmark of 3 years (see paras. 2.24 to 2.32);
- (c) *Supply of land for public housing.* Audit noted that the shortage of land supply for public housing and the long time taken for planning and land development process had posed challenges to the Government in meeting the PRH production target in the past and would pose greater challenges going forward (see paras. 2.33 to 2.57); and
- (d) *Long process and time taken to develop sites.* Audit noted that, in previous years, some PRH sites were returned for a variety of reasons to the Government for other uses. In exchange for these sites, the Government provided replacement sites to the HA for PRH development. However, in some cases, it took the HA a long time to develop the sites.

Planning for the provision of public rental housing flats

For a number of such returned sites, the development costs incurred by the HA had to be written off from its financial statements. In view of the higher production target for PRH, the HA and the Government need to closely monitor the possible delays that the returning of sites may cause to PRH production in future (see paras. 2.58 to 2.70).

Assessment of public housing supply and demand

Demand for PRH flats

2.2 According to the HD, the overall demand for PRH broadly comprises demand from WL applicants and other demands.

2.3 ***Demand from WL applicants.*** The HA maintains a WL of PRH applicants. The HA's current target is to maintain the AWT at around three years for general applicants. The demand for PRH from WL applicants has been increasing in recent years (see paras. 1.8 and 1.9).

2.4 ***Other demands.*** These are housing requirements arising from redevelopment of old PRH estates, urban renewal, clearance of squatters and roof-top structures, compassionate rehousing, quota for civil servants and transfer from sitting tenants. These demands are, to a large extent, dependent on the housing policies and programmes of the HA and the Government. Table 3 shows the actual allocation of PRH flats to meet different categories of demands from 2008-09 to 2012-13.

Planning for the provision of public rental housing flats

Table 3

**Actual allocation of PRH flats to meet different categories of demands
(2008-09 to 2012-13)**

Demand	Number of flats allocated				
	2008-09	2009-10	2010-11	2011-12	2012-13
WL applicants	24,598	20,875	15,900	19,789	15,551
Other demands:					
Redevelopment/Estate clearance (Note 1)	3,084	3,360	78	80	2,527
Urban renewal (Note 2)	91	123	231	131	105
Other clearance (Note 2)	86	99	53	31	35
Compassionate rehousing (Note 3)	2,039	2,449	2,439	2,673	2,213
Civil service public housing quota (Note 4)	738	827	662	846	828
Transfer of sitting tenants (Note 5)	8,981	7,909	6,092	7,779	5,751
Emergency (Note 6)	0	8	8	4	0
Total	39,617	35,650	25,463	31,333	27,010

Source: HD records

Note 1: Tenants in old PRH estates scheduled for redevelopment or who have to move out due to comprehensive repair or improvement works of their PRH flats may apply for other PRH flats (see para. 4.31).

Note 2: For people affected by clearance projects of the Urban Renewal Authority or the Government (such as squatter clearance), PRH flats may be allocated to them.

Note 3: Applicants suffering from hardships of various nature (such as serious illness, disability or social problem) may apply direct to the Social Welfare Department (SWD), non-governmental organisations approved by the SWD, or Probation Offices for compassionate rehousing. After confirming the eligibility of applicants, they are recommended by the Director of Social Welfare to the HD for the allocation of PRH flats.

Note 4: This comprises a special quota and a general quota. The former is mainly for junior officers in the disciplined services who are within 10 years of retirement, residing in departmental quarters. The latter is for junior officers in the disciplined services who are not eligible for the special quota, Model Scale 1 staff and junior civilian staff. The quota is subject to review every year.

Note 5: Tenants may want to move to a bigger or another flat due to an increase in household size or special reasons. The HD has various transfer arrangements to cater for different needs of tenants.

Note 6: Flats are normally allocated to victims of natural disasters or fire and those who are in imminent need of housing.

Planning for the provision of public rental housing flats

2.5 *Long-term housing demand assessment.* While planning and land issues are overseen by the Secretary for Development, housing issues are overseen by the Secretary for Transport and Housing. The long-term housing demand assessment was monitored by the Committee on Housing Development (CHD — see Appendix B) under the chairmanship of the Permanent Secretary for Transport and Housing (Housing) cum Director of Housing. The objective of the assessment was to provide a broad-brush, indicative reference for long-term land-use planning and reservation for PRH. The production requirement for PRH should be guided and adjusted by the Government's objective to maintain the AWT at around three years for general WL applicants.

2.6 Following a recommendation of the Review of the Report of the Task Force on Land Supply and Property Prices in 1994, the Working Group on Housing Demand, which was then under the chairmanship of the PlanD, was tasked to conduct regular assessments of the long-term housing demand for both the private and public housing over a 10-year period. With the merger of the former Housing Bureau and the HD on 1 January 2003 and in view of the new housing policy framework, a housing demand assessment model was developed and endorsed by the then Committee on Housing Policy (CHP) in 2004. Thereafter, such housing demand assessments had been conducted by the HD basically on an annual basis. The results of the housing demand assessment were reported to the CHD annually for endorsement.

2.7 Under the assessment model, “housing demand” is defined as the number of new housing units required to provide adequate housing for each and every household during the 10-year projection period. This “household-based” approach is different from the market demand in the strict economic sense which is essentially market-driven and affected by a host of other prevailing economic factors.

2.8 Under this assessment framework, the total housing demand for both public and private sectors was assessed by summing up demands arising from the following three sources:

- (a) formation of new households from population growth and household splitting based on projections from the Census and Statistics Department;

Planning for the provision of public rental housing flats

- (b) rehousing of households affected by demolition of old buildings in both public and private sectors; and
- (c) rehousing need from “inadequately housed” households (i.e. those residing in living quarters that are not self-contained or built of permanent materials, or those households who involuntarily share their living quarters with other households).

2.9 In addition, in order to determine the quantum of PRH production required to maintain the AWT at three years as pledged by the Government, the HD had since 2000 used a statistical model for assessing the demand for new PRH flats. A diagrammatic illustration of the methodology for assessing long-term housing demand for new PRH flats is shown at Appendix C.

2.10 The LTHS Steering Committee formed in September 2012 adopted a new methodology for projecting the long-term housing demand as disclosed in its consultation report (see para. 1.11). Under the methodology adopted by the Steering Committee, housing demand, which includes demand for both private and public housing, is defined as the total number of new housing units required to be built if each and every household is to be accommodated in adequate housing over the long term. The following major components are considered by the Steering Committee when projecting the number of new housing units required:

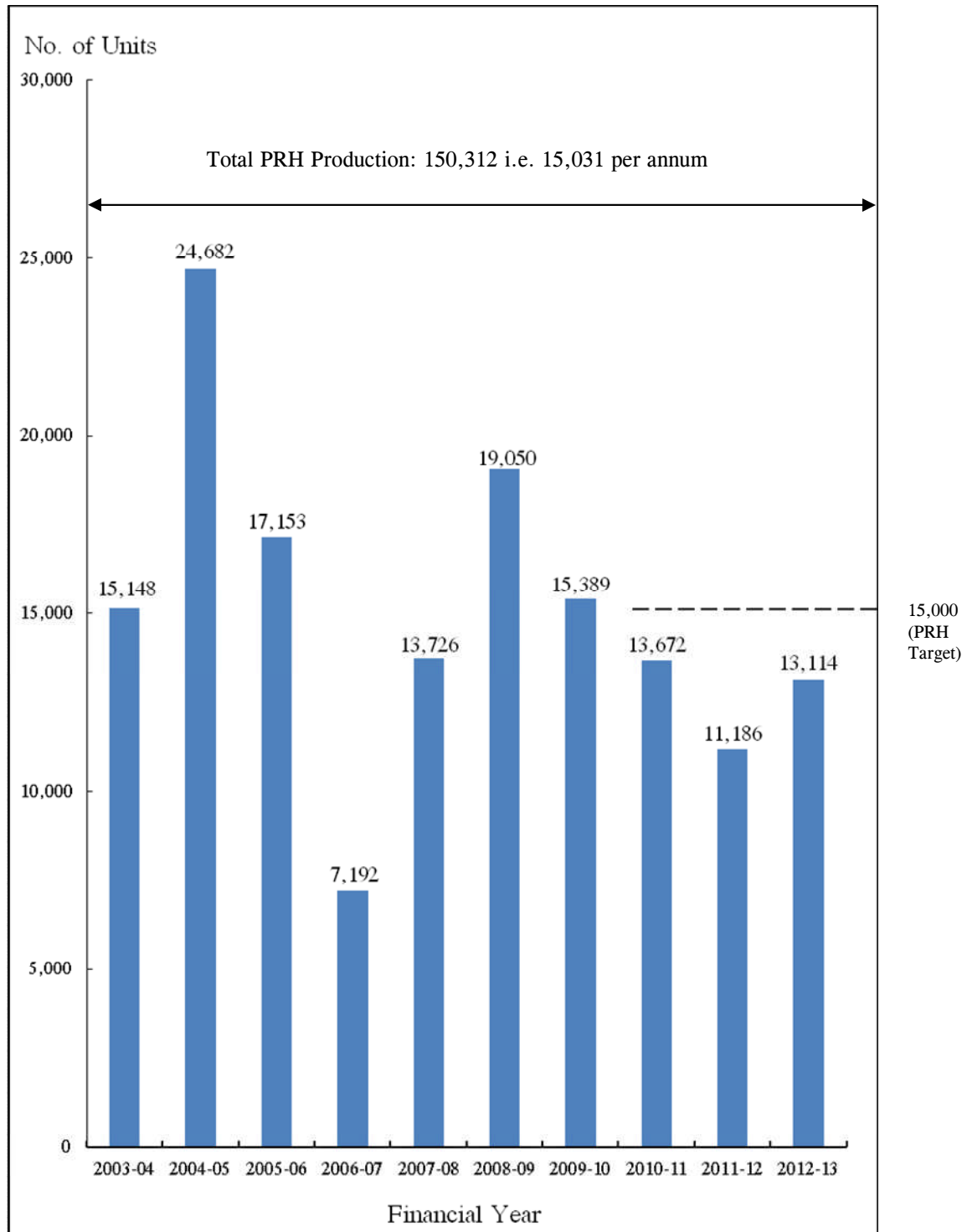
- (a) net increase in the number of households;
- (b) those who will be displaced by redevelopment; and
- (c) those who are inadequately housed.

Supply of new PRH flats

2.11 ***PRH production.*** The overall supply of new PRH flats includes production of new flats and flats recovered from the surrender by and transfer of existing tenants. The total PRH production for the past 10 years was 150,312 flats, i.e. 15,031 per annum (see also para. 1.7). Figure 1 shows the PRH production for the past 10 years.

Figure 1

**PRH production
(2003-04 to 2012-13)**



Source: HD records

Planning for the provision of public rental housing flats

2.12 **2010-11 pledged target.** The 2010-11 Policy Address recognised the need to increase land supply and set a target of providing land to make available annually, on average, for some 20,000 private residential flats and about 15,000 PRH flats.

2.13 **2013 pledged target.** The Policy Address of January 2013 re-affirmed the provision of an annual average of about 15,000 new PRH flats during the five-year period 2012-13 to 2016-17 under the Public Housing Construction Programme (PHCP). It also pledged to increase the supply of PRH, and adopt a production target of at least 100,000 units in total (or an average of 20,000 units per year) for the five years starting 2018.

2.14 **2014 pledged target.** As stated in the Policy Address of January 2014, the Government accepted the recommendation of the LTHS Steering Committee to increase housing supply. In essence, it further increases the production target from the 2013 pledge. The new target is to provide a total of 470,000 units in the coming 10 years, with public housing accounting for 60% of this target (i.e. about 280,000 units in total, or an average of 28,000 units per year). The Steering Committee has recommended that the 60% target should be adjusted flexibly to cater for changes in circumstances, in order to give due consideration to and strike a balance between the two major objectives of increasing the production of public housing to satisfy public demand and stabilising the private market.

PRH supply and demand forecast

2.15 The objective of the Government and the HA is to provide PRH to low-income families who cannot afford private rental accommodation, with a target of maintaining the AWT for general PRH applicants at around three years. To this end, the HA has put in place the PHCP, which is a rolling programme forecasting PRH production of the coming five years, with the March PHCP as a baseline for each financial year. The production plans for the PHCP are generally firm and not subject to significant changes. The PHCP is reviewed periodically and the level of PRH production is adjusted as and when necessary. It is reported monthly to the Building Committee (BC) of the HA and annually to the Panel on Housing of the Legislative Council (LegCo).

Planning for the provision of public rental housing flats

2.16 The HA has also performed the Public Housing Development Forecast (PHDF) since 2003, which is a rolling programme forecasting PRH production of the second coming five years. Production and possible production sites are recorded and they may be subject to changes arising from issues like rezoning, clearance, land resumption, site formation, etc. The PHDF is reviewed periodically and the level of PRH production is adjusted as and when necessary. It is reported regularly to the CHD. Table 4 shows the projected shortfalls in PRH production against demand forecasts since 2008-09.

Table 4

**Projected shortfalls in PRH production against demand forecasts
(2008-09 to 2012-13)**

Timeframe	Number of flats		
	PRH demand forecast endorsed by the CHD (Date endorsed)	Baseline planned production (PHCP & PHDF)	Shortfall in PRH production against demand forecast (% over (a))
	(a)	(b)	(c) = (a) – (b)
2008-09 to 2017-18	151,900 (9.7.2008)	150,000	1,900 (1%)
2009-10 to 2018-19	160,800 (11.11.2009)	150,000	10,800 (7%)
2010-11 to 2019-20	163,000 (22.12.2010)	150,000	13,000 (8%)
2011-12 to 2020-21	186,100 (22.2.2012)	150,000	36,100 (19%)
2012-13 to 2021-22	No assessment was made	150,000 originally, revised to 175,000 based on 2013 Policy Address	—

Source: Audit analysis of HD records

Planning for the provision of public rental housing flats

2.17 Audit noted that:

- (a) the PHDF was used for internal reference and was not disclosed to the public. With the exception of the first assessment conducted in 1997, the results of the housing demand assessment had not been disclosed to the public. The last assessment was made in 2011-12 covering the 10-year period 2011-12 to 2020-21. The HD had not made any assessment of long-term PRH demand since 2012-13;
- (b) in the four years from 2008-09 to 2011-12, despite increasing projected 10-year demand for PRH (from 151,900 to 186,100) based on the Long-term Housing Demand Assessment endorsed by the CHD, the 10-year production targets of the PHCP/PHDF had remained unchanged at 150,000, resulting in projected shortfalls in PRH production against demand forecasts (see Table 4 in para. 2.16 for details); and
- (c) as can be seen from Table 4, the projected shortfalls in PRH production had remained relatively low (1% to 8%) initially, increasing to 19% for the forecast period 2011-12 to 2020-21.

2.18 Upon enquiry as to why the previous established mechanism for long-term PRH demand assessment (see paras. 2.15 to 2.17) had not been followed since 2012-13, the HD informed Audit in February and March 2014 that:

- (a) the regular exercise to assess the long-term housing demand for PRH using the previous methodology was to provide a broad-brush, indicative reference for long-term land-use planning and reservation for PRH for internal reference only. The assessment results were presented to the CHD (see para. 2.5). The assessment was meant to serve as a tool to facilitate the CHD's deliberations only, since the projected housing demand is only one of the many factors considered by the CHD. The CHD noted and endorsed the results of the assessment. However, the CHD must also take into account a wide range of factors in order to assess the whole picture and formulate a holistic view and appropriate measures;

Planning for the provision of public rental housing flats

- (b) apart from the CHD, the results of long-term housing demand assessment were also presented to the then Steering Committee on Housing Land Supply (SCHLS — see para. 2.34), which has the decision-making role in terms of housing land supply. Relevant bureaux and departments (B/Ds) of the Government were aware of both the assessment results of the long-term projection of PRH demand and the then latest PRH supply programme. The production target is not only guided by the long-term PRH demand assessment. A host of factors would be taken into account before the Government adopts new production targets;
- (c) on the point about the assessment results not being disclosed, it should be noted that the then assessments focused on demand projection for PRH. Private housing demand was touched upon, but essentially as a residual under the then methodology (see Appendix C). There was however no detailed analysis into the private sector demand. Furthermore, such data and assessment were market sensitive; and
- (d) the LTHS Steering Committee has reviewed and endorsed a new methodology for assessing the long-term housing demand, and the Chief Executive has adopted the results so assessed as the new housing supply targets in his 2014 Policy Address (see para. 1.12).

2.19 Audit also noted that the LTHS Steering Committee, set up in September 2012, had conducted its assessment of long-term housing demand in the coming 10 years and made a timely recommendation to increase production target (see para. 2.14). As can be seen from paragraphs 2.8 and 2.10, the methodology adopted by the LTHS Steering Committee was built upon that used by the CHD until recently, and has taken into consideration similar factors in assessing the total housing demand, except for not using the statistical model to determine the quantum of PRH production required to maintain the AWT at about three years (see para. 2.9). Since the AWT is widely known and accepted as the measurement for timeliness in satisfying PRH demand, Audit considers that the HD needs to continue to conduct assessments of long-term PRH demand periodically, duly taking into account the target of maintaining the AWT at about three years.

Planning for the provision of public rental housing flats

2.20 According to the LTHS Steering Committee's report on public consultation, the long-term housing demand projection would be updated annually to reflect any changes in circumstances in a timely manner. There is merit for the HD to provide the results of its assessment of PRH demand for the annual review/updating of the total housing demands of the LTHS.

2.21 In March 2014, the HD explained to Audit that:

- (a) the old assessment was conducted to project PRH demand in order to provide a reference on land use planning and reservation for PRH only, while the LTHS's methodology aims to assess how many new units of all types are required in the coming 10 years so as to provide adequate accommodation to meet private and public housing needs. The LTHS's objective is to assess the long-term, overall housing demand for the whole of Hong Kong, while the old model was for the purpose of PRH only. They have different focuses and objectives;
- (b) under the LTHS's methodology, housing demand (including both public and private housing) is assessed as a whole. The result of the assessment is that the total housing demand for public and private housing is 470,000 units over the next 10 years. After coming up with the overall demand assessment, the LTHS Steering Committee recommended a 60 : 40 public-private split in response to clear community aspirations that the Government must take the lead in increasing public housing supply in order to avert the deep-rooted problem of housing supply-demand imbalance. The overall housing supply target and the public-private split are guided by strategic policy considerations and are not just limited to maintaining the AWT for PRH; and
- (c) PRH demand has been fully accounted for in the assessment methodology adopted by the LTHS Steering Committee. The HD will use this methodology to assess long-term housing demand in future. The housing demand projection will be reviewed on an annual basis. The results will be presented to the CHD for reference and will be published.

Audit recommendations

2.22 Audit has *recommended* that the Director of Housing should continue to perform the assessment of long-term PRH demand annually and report the results for:

- (a) endorsement by the CHD; and
- (b) updating of the total housing demands of the LTHS.

Response from the Administration

2.23 The Director of Housing generally agrees with the audit recommendations. He has said that the HD has considered the PRH demand within the context of the long-term housing demand assessment as adopted by the LTHS Steering Committee and will continue to do so in the annual updating of the demand assessment. The HD will continue to closely monitor the number of applications on the WL and maintain its objective to provide PRH for low-income families who cannot afford private rental accommodation, with a view to maintaining the AWT for general applicants on the WL at around three years. The development plans for PRH can be adjusted wherever feasible to maintain the target. The long-term housing demand projection formulated by the LTHS Steering Committee would also be updated annually to take into account latest Government policy changes and the prevailing economic circumstances.

Meeting the pledged production targets

PRH production in the past 10 years

2.24 Figure 1 in paragraph 2.11 shows the number of PRH flats produced by the HD between 2003-04 and 2012-13. The 10-year production target of 150,000 had generally been met. The average annual production was 15,031. However, in the last three years, the average annual production was 12,657 (ranging from 11,186 to 13,672), about 16% below the average of 15,000. The annual PRH production in the past 10 years fluctuated between a high 24,682 in 2004-05 and a low of 7,192 in 2006-07.

Higher pledged production targets

2.25 The 2013 Policy Address announced that the targets for PRH production were to produce “about 75,000 new PRH flats over the five years from 2012-13” and “at least 100,000 units over the five years starting from 2018”. In other words, the Government aimed to produce a total of about 180,000 flats over a 10-year period 2013-14 to 2022-23.

2.26 In the 2014 Policy Address, the Government accepted the recommendation of the LTHS Steering Committee to increase housing supply, and set the new target to provide a total of 470,000 units in the coming 10 years, with public housing accounting for 60%. Therefore, the total production target for public housing over a 10-year period from 2013-14 to 2022-23 has been further revised to about 280,000 (i.e. $470,000 \times 60\%$). The Government aims to provide 80,000 HOS/subsidised sales flats and 200,000 PRH flats in the 10-year period (see para. 1.12).

Shortfall in supply in the coming 10-year projection

2.27 Audit examination of the HD’s 2012-13 projections has revealed that the production forecast for the first five-year period from 2012-13 to 2016-17 is about 79,000 PRH flats. For the second five-year period from 2017-18 to 2021-22, the Government has identified sufficient sites to produce more than 100,000 PRH flats. Although this means more than 179,000 flats would be produced for the 10-year period, Audit notes that there is currently still a projected shortfall of supply when compared to the new production target of 200,000 PRH flats.

2.28 According to the HD, the PHDF is subject to a lot of uncertainties and frequent changes. Feasibility of the sites in the PHDF are still subject to investigation. Meanwhile additional sites would be added in the PHDF once they have been agreed by the relevant departments for use as public housing. To meet the new production target, it is imperative to secure, among other things, timely suitable sites and adequate production capacity in the construction industry to ensure that the delivery of ramped-up production in the second five-year period makes up for the shortfall in the first five-year period in the next 10 years.

Increasing AWT expected

2.29 The increase in PRH demand and the shortage in PRH supply would have a negative impact on the Government’s target of maintaining the AWT for general PRH applicants at around three years. As at December 2013, the AWT reported by the HD was already 2.9 years. Based on the assessment of long-term housing demand for PRH endorsed by the CHD on 22 December 2010, with a projected shortfall of 13,000 flats, when the net demand for PRH was 163,000 flats (see Table 4 in para. 2.16), the AWT would reach 3 years by 2014-15, 3.1 years by 2017-18, 3.3 years by 2018-19 and 4.6 years by 2020-21 (see Table 5). Audit is concerned that the situation may worsen with a projected PRH production shortfall in the coming 10 years. Based on the demand assessment in February 2012, with a projected production shortfall of 36,100 flats when the net demand for PRH was 186,100 flats (see Table 4 in para. 2.16), the AWT for general PRH applicants was projected to reach 3 years by 2014-15, 3.4 years by 2015-16, increasing to 3.5 years by 2018-19 and 5 years by 2020-21 (see Table 5).

Table 5

**Forecast of AWT for general PRH applicants
based on long-term housing demand forecast**

Date endorsed by CHD	Long-term housing demand forecast (Net demand for PRH flats)	Financial year		
		2014-15	2018-19	2020-21
22.12.2010	2010-11 to 2019-20 (163,000 flats)	3.0	3.3	4.6
22.2.2012	2011-12 to 2020-21 (186,100 flats)	3.0	3.5	5.0

Source: HD records

2.30 In March 2014, the HD explained to Audit that the purpose of AWT projection was to provide a broad-brush picture of the situation and was indicative only. The projection was not intended to provide a precise estimate, since changes to the AWT are dependent on a number of factors such as the number of applicants on the WL, the applicants’ choice of district, etc. Most of these factors are outside the control of the HD and could not be captured under the projection model.

Hence, the projected AWTs may or may not bear resemblance with what the AWT actually turns out to be. Audit appreciated the inherent limitations of all projections and the decreasing reliability as projections are made for the longer term. However, the projections made in 2010 and 2012 on the AWT in 2014-15 (within the first five-year period) to reach 3 years appeared to be quite accurate (the AWT as at end of December 2013 was 2.9 years — see para. 2.29). As the AWT is an important benchmark for assessing the timeliness in satisfying PRH demand, it is important for the HD to ascertain and monitor the quantum of PRH units required to maintain the AWT at or around three years and to closely monitor significant projected production shortfall and projected deterioration of AWT.

Audit recommendations

- 2.31 **Audit has recommended that the Director of Housing should:**
- (a) **continue to closely monitor the projected shortfalls in the PRH production against the pledged 10-year production targets; and**
 - (b) **step up efforts to increase PRH production with a view to meeting the pledged 10-year production targets, taking into account the need to maintain the AWT at about three years for general applicants.**

Response from the Administration

2.32 The Director of Housing agrees with the audit recommendations. He has said that the HD will continue to closely monitor the changes in the AWT and will continue to publish the actual AWTs based on the waiting times of the general applicants rehoused to PRH in the previous 12 months.

Supply of land for public housing

2.33 Land supply is the major factor affecting the PRH production. The major source of land supply for PRH comes from the Government. According to the Supplemental Agreement between the Government and the HA, the Government would provide formed land and supporting infrastructure for the implementation of

Planning for the provision of public rental housing flats

the approved public housing development. Hence, it is imperative for the HD to secure an adequate supply of land from the Government for PRH production.

Parties involved in development and supply of land

2.34 The SCHLS, chaired by the Financial Secretary, was set up in October 2010 to coordinate the efforts of the various policy bureaux and government departments concerned in making available land for the housing supply targets set by the Government. As announced in the 2013 Policy Address, the Steering Committee has been re-organised into the Steering Committee on Land Supply (SCLS) since February 2013 with its scope of work expanded to coordinate the overall plans for development and supply of land for different types of land uses including housing as well as commercial uses. Appendix D shows the terms of reference and membership of the SCLS.

2.35 While the SCLS provides the overall steer for land supply-related matters, the Committee on Planning and Land Development (CPLD), chaired by the Secretary for Development, oversees the formulation and review of development strategies and land-use planning. Appendix E shows the terms of reference and membership of the CPLD.

2.36 Under the strategic steer on land supply and planning matters provided by the SCLS and the CPLD, the task of driving and delivering individual potential sites currently involves different parties and mechanisms:

- (a) sites for subsidised housing development (PRH/HOS) are tracked and driven by the HD which liaises with the relevant B/Ds on the delivery of sites for construction of subsidised housing;
- (b) the PlanD-HD Liaison Meeting provides a forum for the two departments to discuss planning parameters and land provision for subsidised housing development, including the identification and earmarking of sites for PRH/HOS development; and

- (c) the CHD assesses the public housing demand, monitors the supply of suitable land for public housing development, and addresses major inter-departmental or cross-bureau issues that affect the timely supply of public housing sites. The terms of reference and membership of the CHD are shown at Appendix B.

2.37 The B/Ds involved and their roles and responsibilities in land supply are listed at Appendix F. In particular, the DevB is responsible for providing adequate land supply. The THB has a role to monitor housing supply and ensure adequate production of public housing units to meet the housing need. The PlanD is responsible for site identification and land use zoning, and the LandsD is responsible for land disposal.

Land supply and site production for development

2.38 Broadly speaking, land supply and site production for development involves a number of major processes including, among others, the following:

- (a) identifying potential areas/sites for development;
- (b) undertaking planning and engineering studies and other studies to confirm the feasibility of development or adequacy of support infrastructures (e.g. technical feasibility study, hazard impact assessment, sewage impact assessment, air ventilation assessment, etc.), if required;
- (c) completing statutory planning procedures (if required), and preparing Planning Briefs (PBs);
- (d) invoking land resumption and clearance actions, if required;
- (e) undertaking land decontamination, site formation and/or infrastructure works (including diversion or removal of major existing utility installations);
- (f) processing and authorising road works scheme under the Road (Works, Use and Compensation) Ordinance, if required;

Planning for the provision of public rental housing flats

- (g) obtaining funding approval for reimbursement of costs; and
- (h) land grant (e.g. private treaty grant or vesting order under the Housing Ordinance).

2.39 *Time taken for planning process.* Increasing land supply requires not only identifying areas and land which are suitable for development, but also undertaking comprehensive planning, with a view to providing adequate infrastructure and facilities and addressing the impacts arising from developments, thereby making the development of land better suit the needs of people and community. Therefore, increasing land supply, either by way of optimal use of developed land or identification of new land for development, has to go through certain procedures.

2.40 According to the DevB, prior to considering the opening up of a large area for development, in particular, where there is no existing provision of infrastructure, a planning and engineering study (see para. 2.38(b)) would usually be required to provide the basis. In the process of the study, the public and stakeholders would be allowed to participate and express views, and detailed technical assessments covering the environment, transport, drainage, sewerage, water supply and air ventilation aspects, etc. would also be included. Therefore, a normal study process must include planning study, technical assessments, public engagement, environmental impact assessment (EIA) and initial design, etc. Amongst these, EIA would take about two years to complete. In addition, public engagement activities would also require at least one year. As such, just the study itself would usually require at least three years or even longer to complete. Taking North East New Territories New Development Areas as an example, it has taken five years to rezone the new development areas since resuming the planning in 2008 up till now.

2.41 For other situations where individual sites or groups of sites are identified as having potential for housing development, the planning process would take about 2 to 3 years to complete if an engineering feasibility study or technical assessments are required. For those sites with no major technical problems, the statutory planning process would normally take about 11 months to complete.

Planning for the provision of public rental housing flats

2.42 In view of the growing expectation of the public and stakeholders for transparency and involvement in the planning process, public consultation and engagement become an increasingly important and extensive part of the planning framework. In addition to the statutory requirements for plan exhibition, public representation and hearing under the Town Planning Ordinance (Cap. 131) in the statutory plan making process, consultation with the respective stakeholders, District Councils (DCs) and/or LegCo at different planning stages would usually be conducted as part and parcel of the planning studies or reviews conducted by the PlanD.

2.43 *Long time taken for land development process.* After formulating the development proposals for new development areas and completion of statutory planning procedures, the HD would commence the detailed design works. This part of work would take at least three to four years. It is also necessary to go through the statutory and other procedures on road works, land resumption and clearance, including surveys on the affected people and providing compensation and rehousing according to the eligibility criteria.

2.44 After the detailed design, the DevB needs to seek funding approval from the LegCo Finance Committee in phases again for carrying out the site formation and the related infrastructure works which would only commence after completion of the land resumption procedures, and compensation and rehousing arrangements. For projects which do not involve land resumption and affect a limited number of occupiers/households, the time required for completion of resumption/clearance would be about 18 to 24 months. In sum, it can take quite a long time from the commencement of planning to the provision of land for development purpose. Assuming that the site is immediately released for PRH development, it would then take another 42 months for completing the building and piling works.

2.45 *Measures to ensure adequate land supply.* The HA has taken the following measures to ensure adequate land supply for PRH development:

- (a) liaising closely with relevant B/Ds, DCs, and local communities to identify suitable sites for PRH development in different parts of the territory;
- (b) examining the build-back potential of aged PRH estates;

Planning for the provision of public rental housing flats

- (c) optimising the development potentials of public housing sites to make more effective use of the precious land resources, irrespective of the sizes of individual sites; and
- (d) striving to achieve relaxation in plot ratio (PR) and height restriction where appropriate without compromising the living environment.

2.46 *Shortage of land supply for meeting the PRH production targets.* Audit examination revealed that subject to resolving many technical issues, local objections and necessary rezoning, there is still a shortfall in the 10-year period 2013-14 to 2022-23 of:

- (a) 16 hectares of land based on the production target of 180,000 PRH flats as pledged in the 2013 Policy Address; and
- (b) 38 hectares of land based on the LTHS production target (or the latest 2014 Policy Address target) of about 200,000 PRH flats for the next 10 years.

2.47 Both the Government and the HA are striving to secure adequate land (of about 38 hectares of land) to meet the new PRH production target for the next decade (of about 200,000 units). To increase land supply for PRH, the Government is exploring possible sources, such as reclamation, opening up new areas, and site redevelopment. However, the complicated process and lengthy time involved in planning and land resumption/clearance present many difficulties and challenges. In March 2014, the DevB/PlanD explained to Audit that DevB and PlanD have already stepped up efforts to boost housing land and flat supply (both public and private) in the past few years, including undertaking various land use reviews, converting some private housing sites to PRH use, increasing the maximum domestic PR allowed for sites located in the respective Density Zone as appropriate, etc. However, a number of sites which had been earmarked for public housing had not been included in the HD's PHCP/PHDF. The HD responded that these sites cannot be made available for housing flat production in the PHCP/PHDF period because their availability is subject to technical assessments, engineering studies, rezoning, land resumption, graves/land clearance, reprovision/relocation of existing/planning facilities, extensive site formation, availability of basic infrastructures such as sewerage, land decontamination, road works gazettal, etc. The DevB/PlanD noted that the HD had faced some difficulties in technical assessments, site formation works and other

Planning for the provision of public rental housing flats

procedures, and the DevB/PlanD and the HD would continue to discuss how best to fast-track the programme of sites to meet the PRH/HOS development within the LTHS 10-year period.

2.48 As the Financial Secretary recently stated in the 2014-15 Budget Speech of 26 February 2014, the Government is fully committed to supplying additional sites to the HA (see also para. 2.55). In this connection, the HD needs to continue:

- (a) liaising proactively with the DevB/ PlanD to secure sufficient number of suitable sites and continue to discuss how best to make use of the identified sites to meet the new production target; and
- (b) working closely with relevant B/Ds, in particular, to expedite the delivery of flat production from identified sites to meet production shortfall, including:
 - (i) the delivery of the sites that require land resumption/clearance for PRH;
 - (ii) the planning and administrative procedures for processing of PB, planning application, and availability of sites on Short Term Tenancy (STT) for preliminary works; and
 - (iii) the implementation of proposals of PR increase for PRH in the PHDF period and submitting planning application to the Town Planning Board (TPB) if necessary.

Enhancements and arrangements to expedite PRH production

2.49 The current institutional set-up for land supply has provided a structure for high-level steer on planning and land supply matters — Executive Council/Policy Committee for major policies, the SCLS for overall land supply strategy, and the CPLD for land-use planning and land development projects. However, relevant departments may not always have the most up-to-date information and status on individual sites which are handled by other departments. Various data, checklists and reports are compiled and updated on an ad-hoc basis by departments as and when required, resulting in laborious and duplicative efforts, as well as potential inconsistencies in data or information so presented.

Planning for the provision of public rental housing flats

2.50 To address the projected shortfall in supply, the CHD has recently identified some arrangements and enhancements to expedite PRH production.

2.51 *Parallel processing arrangements.* The HD is required to obtain District Planning Conference (DipCon — Note 4) approval for PBs and District Lands Conference (DLC — Note 5) approval for letting of the site concerned on STT before the HD could commence the piling and building works on site. The HD would normally apply to LandsD for STT after obtaining the PB approvals. The PB approval would take about 4 to 6 months, whereas the processing of STT applications would need a lead time of about 12 months. For sites that require rezoning, minor relaxation on PR or building height, the whole process should, as far as practicable, be completed before the HD's piling tender invitation. The HD has carried out a stock-taking exercise on the projects for completion in 2017-18, 2018-19 and 2019-20 which face a tight development programme and has sought the assistance of the PlanD and the LandsD on the following fast-tracked parallel processing arrangements so as to avoid programme slippage:

- (a) the PlanD will fast-track the approval of the PBs to tie in with the development programme. For projects that require rezoning or subject to planning approvals, the PBs can be approved subject to the results of the rezoning and the TPB's decision on the planning applications;
- (b) for projects seeking minor relaxation of PR or building height through the planning applications, the PBs can be approved based on the increased PR and building height but stating that the PBs are subject to the TPB's decisions on the planning applications; and

Note 4: *The DipCon provides an inter-departmental forum for discussing issues and proposals related to district planning and development before commencement of consultation with the relevant DCs or other bodies as appropriate. It also provides a forum to facilitate resolution of outstanding issues arising from the processing of applications for planning permission and amendments to statutory plans, the checking of compliance with conditions of approval imposed by the TPB, and the handling of development proposals submitted to the PlanD.*

Note 5: *The LandsD has set up the DLC in the District Lands Offices to approve applications for lease modification, exchanges and private treaty grants. The DLC is chaired by the Assistant Director/Regional. Its members include the respective District Lands Officer, the case officers and representatives from other government departments concerned.*

Planning for the provision of public rental housing flats

- (c) the LandsD will process and approve the HD's STT applications based on the draft PBs.

2.52 *Land resumption and clearance for public housing.* Based on past experience, 24 months are required for land resumption and clearance under normal circumstances. According to HD records, there are 14 PRH projects (around 50,000 flats) in the period up to 2023-24 requiring land resumption and clearance. Among these PRH projects, four projects (around 13,000 flats, representing about 26% of the total 50,000 flats) need 48 months from the submission of the final Clearance Application Form to proceeding with the gazettal of the land resumption and completion of the subsequent resumption and clearance procedures. In March 2014, the LandsD explained to Audit that the time taken from the submission of a Clearance Application Form to the LandsD's resumption and clearance procedures depends heavily on the scale and complexity of the project and the timing of obtaining the necessary approvals for proceeding with the project. If the project is firmed-up, LandsD would actively follow up with the resumption and clearance exercise with an aim to meet the implementation of the programme. If there is any objection or resistance received during land resumption and/or clearance, substantial efforts have to be made in dealing with them which could require much longer time to complete. The HD considers that this will delay the completion of these projects if the lead time for resumption and clearance cannot be shortened.

2.53 *Enhanced mechanism.* Audit notes that the DevB is planning to:

- (a) establish a new sub-committee under the CPLD, i.e. the Land Supply Tracking Subcommittee (LSTS), to be co-chaired by Deputy Secretary (Planning and Lands) and Deputy Secretary (Works), and comprising senior representatives of the relevant departments, and to be tasked to track and drive the production of individual sites with a view to expediting their delivery for development. The DevB plans to formally establish LSTS in the second quarter of 2014. Appendix G shows the terms of reference and membership of the LSTS; and
- (b) set up a computerised Land Supply Information System (LSIS) as a supporting tool to facilitate the tracking of land production and identification of potential land supply so as to support the Government's

Planning for the provision of public rental housing flats

policy objective of increasing land supply in the short, medium and long terms. It is the DevB's initial thinking to start preparatory work in 2014-15.

2.54 To enhance the efforts in increasing land supply for the production of PRH flats, Audit considers that:

- (a) the Administration needs to expedite the enhancements of the current mechanism for tracking land supply and driving site production; and
- (b) in order to ensure the timely delivery of PRH flats, the HD needs to work closely with:
 - (i) the PlanD and the LandsD to streamline the planning and land administrative procedures;
 - (ii) the LandsD to consider ways to shorten the clearance process; and
 - (iii) the DevB to ensure the timely establishment of the LSTS under the CPLD and development of the LSIS to track the overall land supply and to ensure the timely availability of sites for public housing developments.

2.55 *Government committed to supplying additional sites to the HA.* As stated in the Budget Speech of February 2014, to achieve the new target on the provision of PRH and HOS flats, the Government is fully committed to supplying additional sites to the HA. There is a need for the HA to capitalise on the opportunity to liaise closely with the relevant B/Ds to secure sufficient land for the long-term sustainable development of public housing.

Audit recommendations

2.56 **Audit has recommended that the Director of Housing should step up efforts to:**

Planning for the provision of public rental housing flats

- (a) **liaise closely with the DevB and the PlanD to secure sufficient number of suitable sites and discuss how best to make use of the identified sites to meet the new PRH production target; and**
- (b) **work closely with relevant B/Ds, in particular, to:**
 - (i) **streamline the planning and land administrative procedures so as to secure the flat production in a timely manner;**
 - (ii) **consider ways to shorten the clearance process so as to ensure the timely delivery of PRH flats;**
 - (iii) **implement proposals of PR increase for PRH in the PHDF period and submit planning application to the TPB if necessary; and**
 - (iv) **ensure the timely establishment of the LSTS under the CPLD and development of the LSIS, so that it could track the overall land supply and to ensure the timely availability of sites for public housing developments.**

Response from the Administration

2.57 The Director of Housing agrees with the audit recommendations. He has said that the HD will continue to liaise closely with the DevB/PlanD to secure sufficient number of suitable sites.

Long process and time taken to develop sites

Background

2.58 The production of PRH involves a number of factors such as planning and construction. The HD prepares the PHCP for the first five-year period of production, and rolls forward the PHCP on a yearly basis. The construction plans for the PHCP are generally firmed up and will not be subject to major variations. The PHCP is submitted to the LegCo Panel on Housing. The HD also prepares the PHDF for the second five-year period. The construction plans of the PHDF record

Planning for the provision of public rental housing flats

the situation of the sites and the number of flats to be provided by the HD. These sites include firm sites, “problematic” sites (Note 6), prime sites and potential sites under consideration. Sites not yet confirmed may need to be returned to the Government for uses other than public housing development.

2.59 Most of the sites identified for PRH involve site constraints and issues to overcome before development can proceed. To examine the development potential of a site and work out the optimal development intensity, development parameters and schematic layouts would be prepared taking into account the planning, traffic and environmental requirements and infrastructural assessments, geotechnical appraisals and investigations. Generally there are 15 general studies for potential PRH sites and 10 specific studies depending on the specific characteristics and constraints of individual sites (see Appendix H).

Public housing sites returned to the Government

2.60 During the period 2001 to 2013, the HA had returned 24 PRH redevelopment sites to the Government for other uses to tie in with local development needs, or to fully utilise the economic benefits of individual prime sites. These sites were already formed and were thus available for immediate PRH construction. In some cases, replacement sites were provided by the Government in exchange for the return of existing PRH sites. However, such replacement sites were usually at the early planning stage. They might not be immediately available for PRH development since it would normally involve rezoning of sites, land resumption clearance, large-scale site formation works, technical feasibility study and other site development constraints (also see para. 2.47).

2.61 As the replacement sites were not readily available for constructing PRH estates, it may take more than 10 years to develop a site into a PRH estate from identification of site to completion of construction. Shui Chuen O Estate (Shatin Area 52 — Case 1) and Ex-Yuen Long Estate (Case 2) are examples which illustrate the long time and difficulties in identifying and developing sites for PRH development (see Appendices I and J).

Note 6: *Problematic sites include sites which may require rezoning or subject to anticipated objections from DCs.*

Development costs written off

2.62 In general, the HA is not responsible for the costs of land formation. However, for redevelopment sites, agreement between Government and the HA is reached on a case by case basis. There are often cases in which the HA has agreed with the Government to take up the works and/or the costs of some site formation/reclamation to facilitate the development process. The Government is, in general, responsible for funding the land formation of the new sites. Before the return of the site of Shatin Area 52 to the Government in 2003, expenditure of about \$70 million was incurred by the HA. Since the site was finally used as a PRH estate, the formation and development works could still be used and such costs would be capitalised as part of the costs of the new estate (see Case 1 in Appendix I). However, in some cases, the sites returned to the Government were finally sold to developers or converted to other uses, the development costs incurred by the HA had to be written off in its financial statements. The development costs for such returned sites written off in 2011-12 and 2012-13 were \$84 million and \$125 million respectively.

2.63 The costs written off in 2012 and 2013 were related to five returned sites (see paras. 2.64 to 2.66) and the ex-Homantin Estate Redevelopment site (see para. 2.67) respectively.

2.64 In December 2011, the BC of the HA approved the write-off of the development cost in its Consolidated Operating Account, arising from aborting the development of the five sites which were already sold in public land sales or converted to other uses. Table 6 shows the breakdown of the costs.

Planning for the provision of public rental housing flats

Table 6

Breakdown of the HA's development costs written off for the year ended 31 March 2012

Project	Development cost written off (\$' M)					
	(a)	(b)	(c)	(d)	(e)	Total
(1) Inverness Road	—	—	5.20	47.41	0.02	52.63
(2) Welfare Road Aberdeen	8.05	0.24	1.61	5.65	0.45	16.00
(3) Wong Tai Sin Police Quarters	—	—	—	0.60	—	0.60
(4) Tseung Kwan O Area 74 South Phases 1 & 2	—	0.12	3.99	6.22	—	10.33
(5) Sha Tau Kok Road, Fanling	—	—	—	4.06	0.22	4.28
Total	8.05	0.36	10.80	63.94	0.69	83.84

Source: HD records

Remarks: (a) Architectural-led consultancy fees and claims arising from termination of the contract

(b) Consultancy fees for the quantity surveyors

(c) Site investigation cost

(d) Allocation of staff cost and other recurrent costs

(e) Sundry and miscellaneous items

2.65 The first four sites (items (1) to (4) in Table 6) were originally included in the list for HOS development in the early 2000s. Due to the repositioning of housing policy in 2002 to shelve the HOS, the Government decided to delete these sites from HOS development. Subsequently, they were all returned to the

Planning for the provision of public rental housing flats

Government and were then sold in public land sales or put into other uses. For the Sha Tau Kok Road site (item (5) in Table 6), the site had been agreed for PRH development by the Government in 2004, but was subsequently deleted in 2005 due to the high development cost to be incurred by the HA arising from its unfavourable geographical location. The site was then sold in public land sales in May 2010. In the event, the development costs of the above sites incurred by the HA had to be written off.

2.66 The Inverness Road project in Kowloon City (item (1) in Table 6) incurred the largest amount (\$52.63 million) of development cost to be written off. Details of the write-off are given in Case 3 (see Appendix K). The case also illustrates that it took HA much longer time to develop PRH flats when it swapped sites during the planning process. Staff time as well as other costs have to be written off, even in successful swap cases.

2.67 Another significant case of write off was related to the ex-Homantin Estate (see Case 4 at Appendix L). The HA's development cost of \$125 million had to be written off in 2012-13. Another \$99 million would be required to be written off in coming years. Therefore, the total development costs to be written off for this site would be more significant and amount to some \$224 million. Not only was the development of PRH in the area aborted, staff time and costs were also wasted as the result of changing the intended land use from public housing to private residential development.

Minimising delays caused by returning PRH sites

2.68 Past experiences in the return of PRH sites to the Government for other uses show that returning ready PRH sites to the Government in exchange of sites which take long time to develop will inevitably cause long delays in the PRH supply. Both the HA and the Administration need to consolidate experiences from the previous cases of return of PRH sites in order to fully recognise the adverse impacts on the PRH production in future. In particular, effective measures need to be taken to minimise changes to scheduled PRH construction programme in the PHCP or PHDF period.

Audit recommendations

2.69 *Audit has recommended* that the Director of Housing should, in collaboration with the relevant B/Ds, consolidate experiences from the previous cases of return of PRH sites to the Government for other uses, with a view to assessing and fully recognising the possible adverse impacts (e.g. long delays) on PRH production in future. In particular, there is a need to:

- (a) take into due consideration the projected long-term PRH demand and the production targets under the LTHS in his discussions with the relevant B/Ds about the return of public housing sites to the Government for other uses; and
- (b) take measures to expedite the planning and consultation procedures to ensure early completion of PRH development on the replacement sites provided by the Government.

Response from the Administration

2.70 The Director of Housing agrees with the audit recommendations.

PART 3: MANAGEMENT OF PUBLIC RENTAL HOUSING CONSTRUCTION PROJECTS

3.1 This PART examines the HA's management of PRH construction projects. Audit has found room for improvement in the following areas:

- (a) *Monitoring progress of construction projects.* Audit notes that the HA has recently streamlined the PRH construction process. However, given the significant increase in production target within a more compacted timeline, the HD needs to step up efforts to closely monitor the PRH projects, report progress, and take early remedial actions on project delays, in order to ensure their timely completion in accordance with the PRH construction programme (see paras. 3.2 to 3.15); and
- (b) *Monitoring costs of construction projects.* Audit notes that the HA has a system in place to monitor and control the costs of construction projects. In view of the need to further enhance cost-effectiveness of the PRH development programme in the midst of rising construction costs, the HA needs to continue its efforts in enhancing its system of budgeting, monitoring and management of project costs (see paras. 3.16 to 3.23).

Monitoring progress of construction projects

Construction works management

3.2 The HA currently has six standing committees, including the Strategic Planning Committee (SPC) and the BC. According to the terms of reference, the SPC considers the viability of projects relating to public housing development, approves the inclusion of sites in the production process, and reviews all housing programmes relating to policy targets. The BC approves project budget, master layout plans and scheme designs for public housing projects (see Appendix M).

3.3 The DCD of the HD is responsible for the production of new PRH. It is responsible for PRH project management and production from the initial site search and feasibility studies, public engagement, planning, design, contract management, commissioning for occupation, up to the expiry of the initial maintenance period and the settlement of final accounts.

Management of public rental housing construction projects

3.4 As stated in the 2013 Policy Address, the THB agreed to expedite the construction of public housing flats without compromising quality, and find ways to simplify technical assessments under different regulatory requirements. Subsequently, the HA has refined the construction process to compress the lead time from three years to one year for preparing various feasibility studies, consulting the DCs and local communities, and conducting preliminary planning and design. Under the fast-track programme, a 40-storey housing project can be completed within five years provided that the site is properly zoned, resumed, cleared and formed with adequate provisions of infrastructure, and early support from DCs and the local communities secured. Table 7 shows a comparison of construction project life cycle of PRH under the normal timeframe and the fast-track programme.

Table 7

Comparison of construction project life cycle of PRH

	Project stage	Duration (Note)	
		Normal (year)	Fast-track (year)
(1)	Site inception and acceptance by the CHD for including the earmarked sites in the PHCP/PHDF	3	1
(2)	Conduct feasibility study and prepare a planning outline for SPC approval		
(3)	Prepare scheme design and project budget for BC approval		
(4)	Prepare detailed design and specification proposals		
(5)	Invite tenders and the BC examines the tenders and award the contracts to the successful tenderers	0.5	0.5
(6)	Construction (Foundation)	1	1
(7)	Construction (Building)	2.5	2.5
	Total	7	5

Source: LegCo Secretariat Information Note

Note: This is the timeframe required for constructing a 40-storey housing project.

Management of public rental housing construction projects

3.5 Audit notes that the period of the construction project can be significantly shortened by two years because the first four stages relating to planning and approval will be compressed.

Planned timeframe for PRH production

3.6 Table 8 shows the planned timeframe for all PRH production in 2012-13. Audit noted that the planned timeframe for all 2012-13 PHCP projects was within five years, except the Tuen Mun Area 18 project.

Table 8

Planned duration for PRH production in 2012-13

	Project	Discussed at SPC	Discussed at BC	Planned completion as stated in the BC paper	Planned duration for PRH production (month)
(1)	Kai Tak Development Site 1A (Phases 1 and 2)	Nov 2008	Nov 2008	Jan 2013	51
(2)	Lower Ngau Tau Kok Estate Phase 1	Dec 2007	Dec 2007	Mar 2012	52
(3)	Ex-Cheung Sha Wan Police Quarters	Oct 2008	Oct 2008	Jan 2013	52
(4)	Ex-Sha Tin Married Quarters	Feb 2008	Feb 2008	Oct 2012	57
(5)	Heung Fan Liu Street, Shatin Area 4C	Sep 2008	Sep 2008	Dec 2012	52
(6)	Tuen Mun Area 18	Aug 2007	Feb 2009	Mar 2013	68

Source: Audit analysis of HD records

Management of public rental housing construction projects

3.7 Audit noted that for the Tuen Mun Area 18 project, the HA's BC meeting was held 1.5 years after the SPC meeting (see item (6) in Table 8). The project was delayed because there had been a lengthy consultation between the HA and the Tuen Mun DC on the additional provision of community facilities, causing major changes to the original Project Brief. Details are given in Case 5 at Appendix N.

3.8 Audit noted that it was quite common that there were objections to the PRH projects from the local communities, on the grounds of a high concentration of public developments and inadequate community facilities in the district. Therefore, it took the HD a long time to discuss and resolve the demand of the Tuen Mun DC for more community facilities, and obtain the necessary agreement/approval from the relevant B/Ds. In March 2014, the HD explained to Audit that the provision of the community facilities was not planned by the HA and was beyond HA's control.

PRH construction project delays

3.9 As items (6) and (7) of Table 7 in paragraph 3.4 indicate, after the land site was ready for construction, it normally took the HD around 3.5 years to carry out the construction work. According to the 2012-13 PHCP, six PRH projects would be completed in 2012-13 involving the production of 13,114 flats. Audit found that there had been some project delays in these six projects. The period of delay ranged from 2 to 7 months as compared with the planned completion dates stated in the relevant BC papers. Table 9 shows the details.

Management of public rental housing construction projects

Table 9

Projects completed in 2012-13

PRH project < BC meeting date >	Planned completion date stated in the BC paper (a)	Completion date		Project delay		Number of flats
		(Building contract) (Note 1) (b)	(Domestic blocks) (c)	(Building contract) (d) = (b) - (a) (month)	(Domestic blocks) (e) = (c) - (a) (month)	
Kai Tak Development Site 1A (Phases 1 & 2) < 21.11.2008 >	Jan 2013	2.7.2013	9.4.2013	5 (Note 2)	3 (Note 2)	5,204
Lower Ngau Tau Kok Estate Phase 1 < 14.12.2007 >	Mar 2012	24.10.2012	1.4.2012	7 (Note 2)	—	2,707
Ex-Cheung Sha Wan Police Quarters < 17.10.2008 >	Jan 2013	30.3.2013 (extended completion date: 19.3.2013)	28.3.2013 (extended completion date: 19.3.2013)	2 (Note 2)	2 (Note 2)	1,390
Ex-Sha Tin Married Quarters < 22.2.2008 >	Oct 2012	8.3.2013	22.2.2013	4 (Note 2)	4 (Note 2)	1,607
Heung Fan Liu Street, Shatin Area 4C < 19.9.2008 >	Dec 2012	16.3.2013	1.2.2013	3 (Note 2)	2 (Note 2)	1,216
Tuen Mun Area 18 < 20.2.2009 >	Mar 2013 (Note 3)	30.9.2013	13.3.2013	NA (Note 3)	—	990
Total						13,114

Source: HD records

Note 1: Other than domestic blocks, a PRH project may include construction of car parks, ancillary facilities, footbridges and walkways, etc.

Note 2: According to the HD, there were genuine reasons for the slippages which were not anticipated at the BC stage (such as inclement weather, delays by other parties beyond the control of the HA, late possession of site, etc.). Usually there were 2 months of extension allowed for delays due to inclement weather for building contracts. For other reasons, the contractors can submit claims to the Contract Manager who would assess the claim and grant the extension if justified.

Note 3: Owing to the fact that the provision of the community facilities was not planned by the HA and was beyond HA's control, the planned completion date of the community hall was not specified in the BC paper.

Management of public rental housing construction projects

3.10 The BC is responsible for endorsing programmes of activities and monitoring their performance (see Appendix M). In seeking the BC's approval for the scheme design and project budget, a development programme is submitted, providing the completion dates of piling and building. According to Table 9, the completion date of the domestic blocks was usually earlier than the completion of the whole contract. This is because the HD often has to construct ancillary facilities for the PRH residents and the local communities after constructing the domestic blocks.

3.11 As can be seen from Table 9, the actual completion dates of the building contracts of all the six PRH projects were later than those stated in the relevant BC papers. For four of the six projects, there were also some delays in the completion of the domestic blocks.

3.12 According to the HD, the delays were mainly due to extra inclement weather and some legitimate or genuine grounds for extension of time that the contractors were entitled to. There were also reasons for delay which were not anticipated at the BC stage, such as late possession of site or delay by other parties beyond the control of the HA. As a result, most of these projects had legitimate postponement of project completion date which resulted in no or only very minor slippage.

3.13 Project delays not only affect the timely delivery of PRH flats which were in great demand, but may also cause great inconvenience to the incoming tenants and lengthen their actual waiting time for PRH. Given the significant planned increase in production of PRH units and the compressed timeframe, Audit considers that the HD needs to step up efforts to closely monitor the PRH projects to ensure that they are completed in accordance with the time schedule of the PHCP and report any project delays to the BC.

Audit recommendations

3.14 **Audit has recommended that the Director of Housing should step up efforts to:**

Management of public rental housing construction projects

- (a) **conduct early consultation work to deal with any possible objections from the local communities or other stakeholders, in order to ensure that the PRH production is delivered in a timely manner; and**
- (b) **closely monitor the PRH construction projects and take early remedial actions on project delays, in order to ensure their timely completion in accordance with the PHCP.**

Response from the Administration

3.15 The Director of Housing generally agrees with the audit recommendations. He has said that:

- (a) during the process of the development of housing projects, it is not unusual to encounter problems such as objections by the public or local concerned groups, or construction delays caused by genuine reasons which are beyond the control of the HA or the contractors (such as inclement weather and delays caused by other parties). Nevertheless, the HD project officers will closely monitor the situation, to avoid programme slippage, and minimise any such incidents. The HD regularly reports the progress on project programmes to the HA's BC; and
- (b) the HD project officers have been very proactive and actively liaise with all stakeholders, such as local pressure groups and district councillors to deal with resistance or objections promptly; and to enhance communications with the relevant government B/Ds for necessary approval. Sometimes local objections are too strong with a consequence that some works progress is affected. Under such circumstances, the project officer concerned would endeavour to separate the domestic portion and try to complete it earlier so as not to affect PRH in-take. This is the reason that the completion of non-domestic portion is sometimes later than the domestic portion.

Monitoring costs of construction projects

3.16 Under the current HA's budget system, the Project Construction Cost Ceilings are approved by the SPC at the feasibility study stage. A Project Budget is

Management of public rental housing construction projects

approved by the BC at the budget stage provided that it is within the Project Construction Cost Ceiling previously approved by the SPC and the project budget is revised at the building tender stage (also see item (3) of Table 7 of para. 3.4).

3.17 The Construction Cost Ceilings/Budgets at the feasibility study and budget stage are prepared based on the cost yardsticks with adjustments made for known requirements and detailed design information of individual projects. To enable comparison between individual projects and standard cost yardsticks, all Construction Cost Ceilings/Budgets are worked out at the same base price levels of the standard yardsticks. The construction cost yardsticks are compiled in June every year to reflect the tender price movement and changes in design requirements since last compilation. Blanket approval covering those developments parameters requiring updating is sought from the SPC, or the BC where the updating only involves changes resulting from the use of the latest approved standard cost yardsticks, tender price inflation and contract price fluctuation adjustment factors.

3.18 The proposed project budget generally includes the site development costs (demolition and site preparation costs), construction costs (foundation and building costs), consultants' fees and other project costs (civil engineering and geo-technical studies, site investigation and material testing costs). Revisions to the project budget would also be submitted to the BC for approval after the Tender Committee's approval of the award of the contracts.

3.19 When preparing the tender documents, the contract team of the HD is responsible for monitoring costs against the approved budget parameters and amending the project design if required to bring costs within the approved budget parameters. Once the construction work starts, the project manager would carry out annual budget review for the latest estimate of annual construction expenditure to avoid over/under spending.

3.20 Audit analysed the six projects completed in 2012-13 (see Table 10 for details). All of them involved budget revisions, due to changes in construction cost yardsticks, award of contracts, or contract price fluctuations, etc. (see paras. 3.16 and 3.17). Audit noted that the actual/estimated costs of all the six completed projects were within the approved budgets. Comparing with the original budgets, variances of 1% to 37% were noted for the actual/estimated costs of these projects.

Management of public rental housing construction projects

Table 10

Cost for projects completed in 2012-13

PRH project	Original budget (\$M)	Revised budget 1 (\$M)	Revised budget 2 (\$M)	Revised budget 3 (\$M)	Revised budget 4 (\$M)	Revised budget 5 (\$M)	Actual/estimated cost as at November 2013 (Variance as % of original budget) (\$M)
Kai Tak Development Site 1A (Phases 1 and 2)	3,188.05	3,199.22	2,373.62	2,230.89 (Note)	2,343.07	—	2,336.18 (27%)
Redevelopment of Lower Ngau Tau Kok Estate Phase 1	1,596.84	2,207.28	2,217.03	1,600.85 (Note)	—	—	1,466.77 (8%)
Ex-Cheung Sha Wan Police Quarters	861.38	864.37	578.75	564.46 (Note)	584.37	—	578.47 (33%)
Ex-Shatin Married Quarters	625.24	628.69	711.07	627.54 (Note)	659.50	—	619.81 (1%)
Heung Fan Liu Street, Shatin Area 4C	809.32	811.90	581.79	482.26 (Note)	491.31	523.87	513.26 (37%)
Tuen Mun Area 18	560.78	562.91	489.96	511.44	506.30 (Note)	—	503.94 (10%)

Source: HD records

Note: Figures represent revised project budgets after the approval of the award of the building contracts (para. 3.18 refers).

Management of public rental housing construction projects

3.21 Audit notes that the HA has a system in place to monitor and control the costs of construction projects. The actual/estimated costs of all the six completed projects were within the approved budgets as revised. However, in three of the six projects, there were large variances (27% to 37% — see Table 10) from the original budgets. It appears that there is room for improving the accuracy of budgeting for PRH construction projects. According to the 2014-15 Budget Speech of 26 February 2014, the HA will have an estimated balance of \$68 billion at the end of 2013-14, which can meet the funding requirement of the development programme for the next four years; however, to achieve the new housing production target, the HA must keep enhancing cost-effectiveness and sustainability of modus operandi in the long run. In this connection, the Financial Secretary has indicated that the HA is expected to assess the additional financial resources needed for the next 10 years. Before starting its discussion with Government on a feasible long-term financial arrangement, the HA needs to continue enhancing its system of budgeting and monitoring of project costs with a view to further improving the accuracy of budgeting for PRH construction projects.

Audit recommendation

3.22 **Audit has recommended that the Director of Housing should continue enhancing its system of budgeting and monitoring of project costs with a view to further improving the accuracy of budgeting for PRH construction projects.**

Response from the Administration

3.23 The Director of Housing agrees with the audit recommendation. He has said that:

- (a) the HA already has a proper budget preparation and approval process, and an effective budgetary control and monitoring system in place (see paras. 3.16 to 3.19). Project teams are required to follow the established mechanism in preparing the original project budgets in accordance with the latest designs and prevailing construction cost yardsticks which have taken into account the prevailing market conditions. The original project budgets are then scrutinised by the senior management and approved by relevant business committees of the HA. Project teams have also kept

Management of public rental housing construction projects

close monitoring of the project budget and sought relevant approval to update project budget promptly as appropriate. In addition, the HA compiles 5-year budgets and forecasts annually based on the latest approved project budgets and construction programmes. The assessment of the updated cashflow required is reflected in the budgets and forecasts promptly for the examination and endorsement by relevant committees of the HA;

- (b) the major variances from the original budgets for the three projects identified (i.e. Kai Tak Development Site 1A, Ex-Cheung Sha Wan Police Quarters and Heung Fan Liu Street, Shatin Area 4C) were mainly due to the change in market conditions in 2009. The original budgets of these three completed projects with major variances had been prepared in 2008, i.e. using June 2008 Construction Cost Yardsticks which at that time turned out to be the record high since 2004. Due to the financial tsunami in late 2008, the HA made downward adjustments to the project budgets of these three projects in 2009 (i.e. Revised budget 2 in Table 10) to reflect the dramatic market downturn to strengthen the control. As a result, the variances between the estimated final costs and Revised budget 2 of these three completed projects were substantially reduced; and
- (c) the estimated final costs of the six completed projects were within the respective original budgets, and the variance of each of these six projects from the respective revised project budgets after the approval of the award of the building contracts was less than 10%.

PART 4: REDEVELOPMENT OF PUBLIC RENTAL HOUSING ESTATES

4.1 This PART examines the following issues relating to the redevelopment of PRH estates:

- (a) ***Comprehensive Structural Investigation (CSI) Programme.*** Audit notes that the CSI Programme will continue to draw on considerable resources of the HD. There is a need to critically assess the resource requirements for the CSI and plan early for the next CSI Programme (see paras. 4.4 to 4.13);
- (b) ***Refined Policy on Redevelopment.*** Audit notes that there are areas for improvement in the implementation of the Refined Policy on Redevelopment (see paras. 4.14 to 4.26); and
- (c) ***Exploring future redevelopment potential.*** While redevelopment of old PRH estates might increase the supply of PRH flats in the long term, it would in the near term reduce the public housing stock and generate additional rehousing needs from the affected tenants. This may have an immediate adverse impact on the AWT for PRH before the longer-term benefits of supply of new PRH flats from redevelopment can be realised. The HD needs to duly take this into account in planning and implementing major PRH redevelopment projects in future (see paras. 4.27 to 4.33).

Background

4.2 ***Comprehensive Redevelopment Programme (CRP).*** In the 1960s and 1970s, the production of PRH estates (i.e. Mark I to Mark VI and Former Government Low Cost Housing estates) was aimed at satisfying the need for low cost rental housing. As compared to the newer estates built since the 1980s, the older estates had small living areas and minimal supporting facilities. The Government's 1987 LTHS stated that marked differences between older and newer estates were socially unacceptable and most of the older estates were expensive to maintain. In 1988, the HD launched a CRP to redevelop most of the older estates

(Note 7). Upon completion of the CRP in January 2010, the HA had redeveloped all the old blocks of Former Government Low Cost Housing and Mark I to Mark VI estates.

4.3 A large-scale public housing redevelopment programme inevitably exerts a heavy drain on resources. The 1998 White Paper on the LTHS for Hong Kong, which was promulgated after extensive consultation, set out the strategy for redeveloping aged public housing estates after completion of the CRP. It stated that redevelopment would be carried out as required having regard to the actual conditions of individual estates. Clearance would be undertaken only when an estate was unsafe structurally or became uneconomic to maintain. The need for clearance should be considered on an estate or block basis only.

Comprehensive Structural Investigation Programme

4.4 Under the 1998 LTHS, the sustainability of the public housing resources was driven primarily by safety and cost-effectiveness considerations, alongside the maintenance regime. In essence, the basic principle was that public housing blocks and estates should not be demolished unless they were structurally unsafe or beyond economic repair. To ascertain the building conditions of individual estates, the HD conducted a CSI on ageing estates which was about 40 years old or above and often associated with soaring maintenance and repair costs.

The CSI Programme

4.5 The CSI Programme has been rolled out since September 2005. It includes a detailed investigation which aims to determine the material strength and rate of deterioration of the structural elements of a building, focusing on major aspects such as concrete strength, extent of spalling and cracks, and corrosion of steel reinforcement bars, etc. The whole investigation process covers desktop

Note 7: *Redevelopment of PRH estates first began with 12 Mark I to Mark II resettlement estates in the early 1970s. The programme was expanded to cover 26 public housing blocks under the Extended Redevelopment Programme in 1985. The CRP was an extension of the redevelopment programme and covered a total of 566 public housing blocks comprising 244,000 flats in all Marks III to VI estates and Former Government Low Cost Housing estates, representing 42% of all PRH flats as at December 1988.*

Redevelopment of public rental housing estates

study, visual inspection, site and laboratory testing, and technical assessment. The findings would facilitate the consideration and planning of the necessary follow-up actions such as monitoring, repair or clearance.

4.6 If certain blocks or estates are found to be structurally unsafe, demolition would be recommended. For other blocks or estates which remain structurally safe but require improvement works to enhance the structural capacity, appropriate works such as structural strengthening, recasting or tailor-designed concrete repair would be arranged so that no major structural repairs would be necessary for at least 15 years. Another detailed CSI would be carried out near the end of the 15-year period.

4.7 The expenses on maintenance and improvement works for old buildings generally increase with age. While it may be technically feasible to extend the serviceable lifespan of the rental blocks through various upgrading works, the associated costs will at a certain point outweigh the benefits, thus making it uneconomic to retain the buildings. Hence, a financial appraisal will be carried out for the costs of repair works to determine its financial viability. Demolition may be considered if the cost-benefit analysis suggests that the aged buildings or estates are beyond economic repair.

CSI findings

4.8 Primarily in consideration of the estates' age, a total of 42 estates built in 1980 or earlier were included under the CSI Programme in two batches (Note 8). Up to January 2014, assessment on the 26 oldest estates had been completed. So far, all estates had been found to be structurally safe. The CSI found varying extent of structural deterioration in the older public housing blocks. The HD had tailor-made solutions to sustain these buildings.

Note 8: *The first batch of CSI Programme included 10 estates with their CSIs conducted and completed between September 2005 and September 2008. The second batch included 32 estates with the CSI programmed from 2008 to 2018.*

Redevelopment of public rental housing estates

4.9 The estimated repair cost per flat varied among various estates. It ranged from \$1,200 to \$47,900 per flat. Only So Uk Estate and Tung Tau Estate Block 22 had been recommended for redevelopment under the CSI Programme because their estimated structural repair costs per flat (in the range of \$46,200 to \$47,900) were not economically viable. Other PRH blocks, which were economically viable to retain and were not to be redeveloped/cleared, would be sustained for at least another 15 years through appropriate structural repairs and estate improvement works under the Estate Improvement Programme (EIP — Note 9). As can be seen from the redevelopment of Tung Tau Estate Block 22 in Case 6 (see Appendix O), the process of redevelopment could take many years, the timeliness in identifying all the significant issues related to the clearance of households and the demolition of the old blocks and careful analysis and planning of the build-back potential of the site are crucial to minimise delays.

Further planning needed for the CSI Programme

4.10 In consideration of the resource demand and the anticipated amount of works involved, the HD currently adopts a manageable programme approach by conducting CSI for only 3 to 4 estates per year. Audit notes that there are 42 estates included in the CSI Programme from 2005 to 2018 (26 estates completed during the 8 years from 2005 to 2013). More estates would probably be included in the next CSI Programme beyond 2018 (expected year of completion of the current CSI Programme). Moreover, by that time, some of the retained estates of the current CSI programme would approach the end of the 15-year cycle and thus would require another CSI (see para. 4.6 and Table 11).

Note 9: *After the aged buildings were identified as structurally safe in the CSI Programme and were determined not to be redeveloped/cleared, an EIP would be formulated and implemented to address the needs of the estate/tenants with respect to building improvements, lift addition and modernisation, as well as provision of disabled access, landscaping, elderly facilities, recreational and sports facilities, etc.*

Redevelopment of public rental housing estates

Table 11

Age profile of old PRH estates

	Number of estates	Number of blocks	Completion year of the earliest block	Building age (as at 2013)	Building age (as at 2018)	Building age (as at 2032)
CSI Programme from 2005 to 2018	42	366 (Note 1)	1954 – 1980	34 – 60 years	39 – 65 years	53 – 79 years
Estates falling into the next CSI Programme (2019 to 2032)	80 (Note 2)	610	1981 – 1993	21 – 33 years	26 – 38 years	40 – 52 years

Source: HD records

Note 1: Out of the 366 blocks, there are 271 blocks built before 1981.

Note 2: These excluded the estates which had been subject to the CSI Programme from 2005 to 2018.

4.11 Audit notes that the existing resources for investigating 3 to 4 estates per year may not be sufficient to cope with the increasing number of blocks requiring inspection in future. The HD needs to critically assess the resource requirements for the CSI and plan ahead for the implementation of the next CSI Programme.

Audit recommendation

4.12 Audit has *recommended* that the Director of Housing should critically assess the resource requirements for the CSI and plan ahead for the implementation of the next CSI Programme which is expected to start from 2018.

Response from the Administration

4.13 The Director of Housing agrees with the audit recommendation. He has said that:

- (a) the HD would prudently plan its redevelopment programme. Though it would be difficult to foresee all obstacles at the outset, the HD would allow adequate time for negotiations with the locals, DC members and LegCo members; and
- (b) the HD would conduct an early review to assess the resource requirements for the CSI and prepare an implementation plan ahead of the next CSI Programme expected to start in 2018.

Refined Policy on Redevelopment

Assessment of redevelopment potential

4.14 In view of the shortage of land for PRH development, the HD held a meeting in June 2009 to discuss the redevelopment potential of some existing old PRH estates (Pak Tin Estate was one of the potential estates identified for discussion — see para. 4.22). The primary objective was to maximise the development potential of those underutilised estates in hand, but at the same time having due regard to the policy of three-year AWT for PRH applicants. In September 2009, a Working Group on PRH Redevelopment Potential Study was formally established. Its terms of reference are to:

- (a) review the identified old estates with potential for redevelopment;
- (b) assess the strategic/political/financial/legal implications of the redevelopment potential;
- (c) formulate policy on redevelopment of old PRH estates if appropriate; and
- (d) report findings to the senior management and the SPC for consideration.

Redevelopment of public rental housing estates

4.15 The Working Group identified a few potential old PRH estates. However, given the general adverse impact on the AWT, political sensitivity, and stringent control on development intensity and building height, the Working Group suggested that a mechanism should be established to monitor the availability of local rehousing resources and conduct the redevelopment potential review for the estates under the CSI Programme.

4.16 The Senior Officials Meeting of March 2010 supported the recommendation of not proceeding with the redevelopment. It opined that since most of the estates with the CSI completed would be over 50 years of age and a few approaching 60 years of age after the 15-year cycle, a holistic review of the redevelopment potential of these estates would be required. In the long term, the aged buildings would require redevelopment irrespective of whether or not there was a lack of land supply for PRH development. It agreed to continue to identify opportunities and problems for redevelopment of CSI-completed estates and establish a programme for redevelopment of these estates in the long term. Consideration should also be given to identifying other potential redevelopment estates with reference to factors such as build-back flat gain and availability of rehousing resources.

Refined Policy on Redevelopment of aged PRH estates

4.17 To achieve the PRH production targets to meet the continuing high demand for public housing, apart from identification of new public housing sites, the HA would need to make better use of the valuable land resources in existing PRH estates with a PR lower than the maximum permissible, and explore scope for adding PRH units through redevelopment of the aged estates.

4.18 In November 2011, in response to an initiative announced in the Policy Address of 2011-12 “to explore ways to appropriately increase the densities and PR of PRH projects without compromising the living environment”, the HA implemented the Refined Policy on Redevelopment of aged PRH estates by considering the build-back potential and the availability of rehousing resources of the estates in addition to the structural conditions and economic viability of the housing blocks under the current CSI Programme.

Redevelopment of public rental housing estates

4.19 With regard to better utilisation of land resources, the objective to minimise waste and the need to sustain the public housing development programme, the framework of the redevelopment policy was refined in November 2011, as follows:

- (a) if the housing blocks are no longer safe or economic to maintain as confirmed by the findings of the CSI, redevelopment should be adopted;
- (b) where suitable rehousing resources are available nearby (Note 10), for estates with promising flat gain upon optimisation of development potential, the whole or part of estate will be redeveloped. The remaining blocks will be upgraded to meet current statutory standards and codes of practice where no further flat gain would accrue; and
- (c) if rehousing resources are not adequately and suitably available, the blocks will be retained and be improved in the normal manner under the CSI Programme/EIP to prolong their life for at least another 15 years.

Build-back potential for the old estates

4.20 Under the Refined Policy on Redevelopment, the build-back potential is one of the factors to be considered for the redevelopment of PRH estates. Out of the 26 estates with the CSI completed, the HD had recommended the way forward for 16 estates. Since the recommendations were made before the introduction of the Refined Policy, the build-back potential of these 16 estates was not considered. However, for the remaining 10 estates, recommendations were put on hold pending the review of their redevelopment potential.

4.21 Up to December 2013, 22 estates with the CSI completed had not been assessed for their build-back potential. Pak Tin Estate was the only estate identified for redevelopment and had its CSI completed. Audit considers that the HD needs to expedite the detailed review on the build-back potential of aged estates with CSI completed.

Note 10: *According to the current practice, affected tenants will, wherever practicable, be rehoused in the same districts where they are living.*

Redevelopment of public rental housing estates

4.22 Among estates in the pipeline for the CSI Programme and the 2009 redevelopment potential review (see paras. 4.14 and 4.15), Pak Tin Estate had been identified with high redevelopment potential and promising flat gain as well as with suitable rehousing resources. In January 2012, the HA endorsed the plan for the redevelopment of Pak Tin Estate. Net gain in flat production upon redevelopment of Pak Tin Estate will be about 2,400 flats (70%). However, Audit found that new lifts were installed shortly before the launching of the redevelopment of Pak Tin Estate (see Case 7 at Appendix P). Audit considers that when major improvement works will be undertaken, it is important to coordinate within the HD to ensure that the estate is not designated for redevelopment in the near future. The case study of Pak Tin Estate has illustrated that the HD should have better coordination within the department so that resources would not be wasted due to the launching of redevelopment plan shortly after the completion of the improvement works in an estate in future.

4.23 On 28 February 2014, the HD announced that it had completed a review of the redevelopment potential of 22 aged PRH estates. The two major findings of the review were:

- (a) as at 2013, the 22 aged estates range in age from 34 to 60 years, and the structural conditions of these estates were basically sound; and
- (b) given that the majority of the aged estates were located in urban areas where land for public housing was in short supply, finding suitable sites for the development of reception resources outside the individual aged estates was very difficult in many cases.

4.24 The review was a starting point for the HD to conduct detailed studies of selected aged estates in the future (Note 11). For the next stage of work, the HD will:

Note 11: *Wah Fu Estate was assessed under this review and was considered suitable for redevelopment following the Government's decision to partially lift the development moratorium at Pok Fu Lam South and adjacent government sites which will be used as reception resources.*

Redevelopment of public rental housing estates

- (a) conduct detailed review on each of the individual 22 aged PRH estates and conduct technical studies to identify suitable reception resources;
- (b) liaise with relevant B/Ds on the provision of other social ancillary facilities to confirm the build-back potential and prepare for local consultation;
- (c) prepare detailed redevelopment plan with a view to optimising valuable land resources; and
- (d) seek the HA's approval on the redevelopment scheme.

Audit considers that detailed review is necessary for assessing the redevelopment potential of the aged PRH estates for long-term planning. In this connection, Audit notes that there will be new supply of PRH flats in the urban areas in the coming PRH production programme which can be considered as the reception resources for the redevelopment of old estates. The HD needs to seek opportunities for gainful redevelopment by assessing the build-back potential and availability of rehousing resources.

Audit recommendations

4.25 **Audit has recommended that the Director of Housing should:**

- (a) **take measures to enhance coordination within the HD in order to avoid the possible wastage of resources due to the launching of redevelopment plan shortly after the completion of major improvement works (e.g. lift addition) in aged PRH estates;**
- (b) **expedite the detailed assessment of the build-back potential for all the aged PRH estates with CSI completed in order to facilitate the future planning for redevelopment of PRH estates; and**
- (c) **critically review the redevelopment projects, having due regard to the requirement of the Refined Policy on Redevelopment on the maximisation of build-back flat gain as far as possible.**

Response from the Administration

4.26 The Director of Housing generally agrees with the audit recommendations. He has said that:

- (a) the HD has enhanced coordination within the department so that the Redevelopment Programme of the aged estates will be from time to time made known to the parties handling various programmes of maintenance and improvement works to the concerned estates to enable better planning; and
- (b) under the Refined Policy, redevelopment of aged PRH estates will only be launched on a project-by-project basis. It is prudent to contain the scale and pace of redevelopment taking into account the availability of reception resources, demand from the general applicants on the WL, and other relevant factors.

Exploring future redevelopment potential

Better utilisation of vacant sites and PRH Interim Housing blocks

4.27 Audit found that some PRH redevelopment sites which had been cleared a number of years ago were still left undeveloped. An example is the Phases 3, 6 and 7 of Shek Kip Mei Estate (see Case 8 at Appendix Q). Audit considers that the HD needs to explore the better use of its existing land resources and explore the feasibility and expedite the process of putting the vacant sites into beneficial uses.

4.28 In October 2006, Audit completed a review of the allocation of PRH flats. The results were included in Chapter 3 of the Director of Audit's Report No. 47 of October 2006, which recommended, among others, that the HA should expedite action to explore the feasibility of converting the two old Kwai Shing East and Shek Lei (II) Interim Housing (IH) Estates (Note 12) into other beneficial uses in

Note 12: *It is the Government's policy to ensure that no one will be rendered homeless as a result of natural disasters, fire, emergencies, as well as government's clearance and enforcement actions. The HD provides temporary accommodation through IH and Transit Centres to affected households not immediately eligible for allocation of PRH flats.*

view of their high vacancy rates and high operational costs. To take forward this audit recommendation, the HD conducted CSI for the two IH estates. Based on the CSI findings, in 2008 the HA approved the clearance of Kwai Shing East IH in consideration of its structural conditions and the financial implications of the extensive repair works required. Besides, the HA endorsed the refurbishment of Shek Lei (II) IH, monitored its vacancy rate and carried out a review in 2011.

4.29 As at January 2014, the HA had three IH estates, namely Shek Lei (II) IH, Long Bin IH (Note 13) and Po Tin IH, which provided a total of 4,914 units. The vacancy rates as at January 2014 of the three IHs were 60%, 40% and 8% respectively. Two Transit Centres (TCs), namely Po Tin TC and Lung Tin TC also provided temporary accommodation. In view of the age, increasing maintenance cost and high vacancy rates, Audit considers that the HD should explore measures to make better use of these resources (see Case 9 at Appendix R).

Consolidating experiences from the previous PRH redevelopment projects

4.30 The HA is committed to a production target to cope with the high demand of PRH flats. Redevelopment of aged building blocks with PR not yet fully utilised is one of the ways to increase the supply of PRH flats. Audit considers that the HA should consolidate experiences from the previous PRH redevelopment projects and take them into account when devising its long-term redevelopment plan. The 1998 LTHS stated that a large-scale public housing redevelopment programme inevitably exerted a heavy drain on resources. Redevelopment should therefore be undertaken when necessary to replace housing blocks which were no longer safe or economic to maintain.

4.31 Audit noted that from past experience, while redevelopment of old PRH estates might increase the supply of PRH flats in the long term, it would in the near term reduce the public housing stock and generate additional rehousing needs from those displaced tenants who would take priority over those on the WL in the allocation of PRH flats. In general, it would take a long time before the supply of

Note 13: *In January 2014, the HA decided to clear Long Bin IH in Yuen Long for public housing development. Long Bin IH consists of eight low-rise blocks with 840 units. The target clearance date is January 2016.*

Redevelopment of public rental housing estates

new PRH flats from the redevelopment can be realised. According to the HD's current practice, affected tenants will, wherever practicable, be rehoused in the same district. The practice of local rehousing would also severely hinder the HD in terms of housing allocation and created many problems. Audit considers that the HD needs to duly take into account the past experience in planning for future redevelopment projects with a view to optimising the use of land and resources.

Audit recommendations

4.32 **Audit has recommended that the Director of Housing should:**

- (a) **continue to closely monitor the demand and supply of IH flats and their vacancy rates and explore the feasibility for their redevelopment;**
- (b) **explore the feasibility of putting the vacant HA sites into beneficial uses; and**
- (c) **duly take into account experiences from the previous PRH redevelopment projects in planning for future redevelopment, with a view to optimising the use of land and resources.**

Response from the Administration

4.33 The Director of Housing agrees with the audit recommendations. He has said that the HD will:

- (a) continue to closely monitor the demand and supply of IH units and explore the feasibility of putting them into other beneficial uses;
- (b) launch the future redevelopment projects on an estate basis under the prevailing Refined Policy on Redevelopment (see para. 4.26(b)); and
- (c) apart from making reference to the experience of the CRP, also refer to recent experience gained in the latest redevelopment projects such as Pak Tin as and when appropriate in terms of optimisation of the use of land and resources.

PART 5: WAY FORWARD

5.1 This PART explores the way forward for the future planning and development of PRH flats.

Higher production target to meet increasing demand for public rental housing

5.2 The current-term Government has made housing a top priority. It is the Government policy to provide PRH to low-income families who cannot afford private rental accommodation, with a target of maintaining the AWT for general applicants at around three years. There has been an increasing demand for PRH flats in recent years. As at end of December 2013, the AWT for PRH was already 2.9 years. According to the Policy Address of January 2014, the Government has accepted the LTHS Steering Committee's recommendation to adopt a higher target of 470,000 units for new public and private housing supply (with public housing accounting for 60% of this target) in the coming 10 years (see para. 1.12). It is necessary to ensure that sufficient new PRH flats are constructed to meet this higher production target for public housing as well as the three-year AWT target for general applicants.

Challenges ahead

5.3 In this review, Audit has examined the HA's efforts in planning, construction and redevelopment of PRH flats. Audit has identified a number of areas that call for improvement (see PARTs 2 to 4). The major challenges facing the HA and the Administration in meeting the new PRH production target are summarised below.

Planning for the provision of PRH flats

- (a) ***Monitoring demand for PRH and meeting the AWT target.*** As stated in the LTHS Consultation Document of September 2013, the Steering Committee is aware of the mounting challenges faced by the HA in maintaining the AWT target since the number of PRH applicants on the WL continues to increase under the current tight supply of PRH units, and it takes time to make available new supply of PRH units. The Steering Committee indicates concern about the possibility of the AWT departing from the target and considers that the AWT target underlines the Government's determination to provide affordable rental housing to the grassroots. Hence the Steering Committee has recommended that the Government should address the issue and strive to maintain the AWT target, despite the possibility of occasional departure from the target. To rise to the challenge, the HD needs to continue to closely monitor the demand for PRH and strive to meet the AWT target as far as possible (see paras. 2.2 to 2.22);
- (b) ***Shortage of land supply for public housing.*** Land supply is the major factor affecting the PRH production. There are keen competing demands for the use of land which is scarce and valuable in Hong Kong. The shortage of land supply for public housing is a great challenge to the HA in meeting the PRH production target. As stated in the Budget Speech of February 2014, the Government is fully committed to supplying additional sites to the HA. The HA should capitalise on the opportunity to secure sufficient land for the long-term sustainable development of public housing (see paras. 2.46 to 2.48 and 2.55);
- (c) ***Long time taken for planning and land development process.*** From past experiences, it often took a long time for the planning and land development process before a site could be used for PRH construction purpose. Delays are also caused by the need to amend Outline Zoning Plans (OZPs), consult DCs and local communities, liaise with different B/Ds, etc. Recently, measures have been taken to enhance the arrangements to expedite PRH production, but more needs to be done to reduce the long time taken for such process as far as possible (see paras. 2.38 to 2.55);

(to be continued)

(Cont'd)

Management of PRH construction projects

- (d) ***Fast-tracking PRH construction.*** Since 2013, the HA has streamlined the construction process to reduce the timeframe for PRH construction from seven years to five years. The HD needs to closely monitor the PRH construction projects to ensure that the fast-track programme is implemented as intended (see paras. 3.2 to 3.14);
- (e) ***Meeting the financial requirement of the 10-year PRH development programme.*** The higher production target set for the coming 10-year PRH development programme has put great pressure on the financial position of the HA. According to the Budget Speech of February 2014, the HA must keep enhancing cost-effectiveness and sustainability of modus operandi in the long run. The HA needs to continue its efforts in enhancing its system of budgeting and monitoring of PRH project costs (see paras. 3.16 to 3.22); and

Redevelopment of PRH estates

- (f) ***Capitalising on the redevelopment of old PRH estates.*** Redevelopment of old PRH estates offers an opportunity for better utilising the PR of the sites and providing additional supply of PRH flats. However, based on experiences of the previous PRH redevelopment projects, redevelopment would in the near term reduce the public housing stock and generate additional rehousing needs from the affected tenants, resulting in an immediate adverse impact on the AWT for PRH. The HD needs to duly take this into account in planning and implementing major PRH redevelopment projects in future (see paras. 4.30 to 4.32).

Review of the Long Term Housing Strategy

5.4 The LTHS Steering Committee (see para. 1.11) issued its report on public consultation in February 2014. The consultation sought views of the public on:

- (a) the proposal to adopt a supply-led strategy for LTHS and with public housing accounting for a higher proportion of the new housing production;
- (b) the principles and methodology adopted for projecting the long-term housing demand;
- (c) any other factors that should also be taken into account in projecting housing demand; and
- (d) the projected total housing supply target for the next 10 years and the proposed public/private split for the future new housing supply.

5.5 The Steering Committee reported that for views of the respondents on overall housing strategy and long-term housing demand projection:

- (a) there was general support for the recommendation to adopt a supply-led LTHS with public housing accounting for a higher proportion of the new housing production;
- (b) respondents generally accepted the demand components (see para. 2.10(a) to (c)) adopted by the Steering Committee for long-term demand projection purposes;
- (c) there was considerable support for the supply target of 470,000 units for the coming 10 years; and
- (d) respondents generally agreed that public housing should play a more prominent role and should account for at least 60% of the new production for the coming 10 years.

The Government will take account of the consultation report and other views collected during the consultation in formulating the LTHS which is expected to be announced later in 2014.

5.6 The HA is tasked to provide affordable housing to meet the needs of households that cannot afford private rental accommodation. It is the primary provider of PRH. As stated in the report on public consultation, the Steering Committee noted the overall public support for maintaining the AWT at around three years for general applicants on the PRH WL. This audit review has highlighted various issues of concern relating to the planning, construction and redevelopment of PRH flats, and suggests measures for improvement. In this connection, the THB needs to give due consideration to the Steering Committee's recommendations, the public's views as well as the audit observations and recommendations in this Audit Report when formulating and implementing the LTHS.

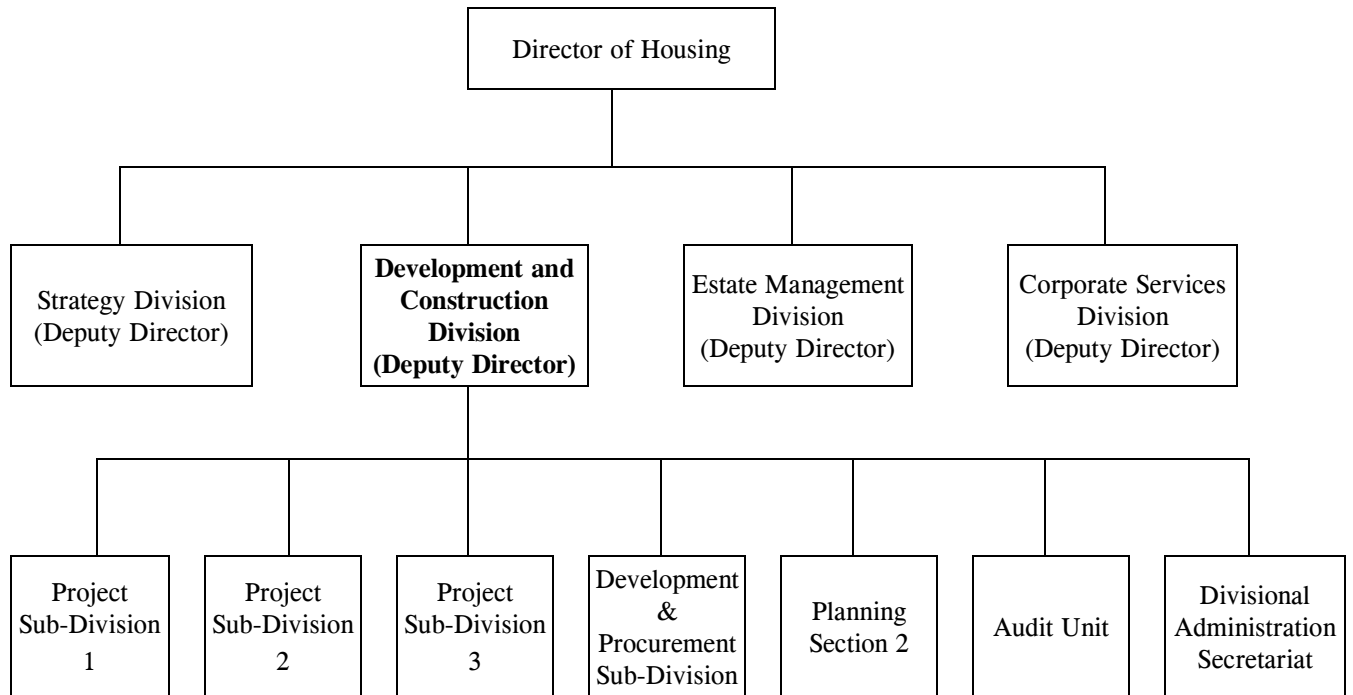
Audit recommendation

5.7 **Audit has *recommended* that the Secretary for Transport and Housing should take on board the audit observations and recommendations in this Audit Report when formulating and implementing the LTHS.**

Response from the Administration

5.8 The Secretary for Transport and Housing agrees that Audit's observations and recommendations would be taken into account in formulating the LTHS.

**Housing Department
Organisation chart (extract)
(31 December 2013)**



Source: HD records

The Committee on Housing Development

Terms of Reference

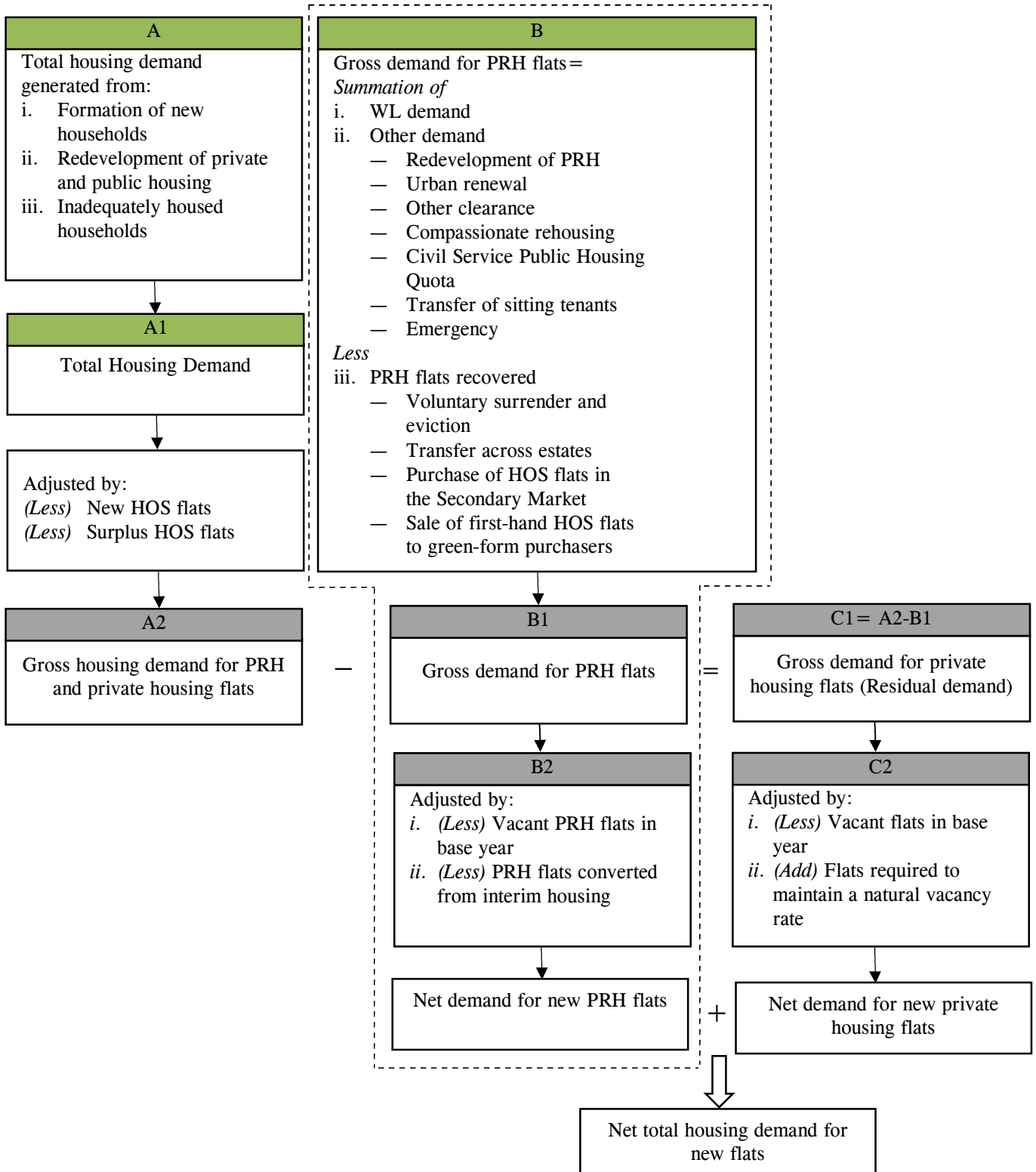
1. To endorse the results of the Assessment of Long-term Housing Demand;
2. To consider the housing type (public or private) of identified residential sites;
3. To monitor the timely supply of suitable land for public housing development to meet the anticipated demand; and
4. To consider and address major inter-departmental or cross-bureau issues that will affect timely supply of suitable public housing land.

Membership

Chairman:	Permanent Secretary for Transport and Housing (Housing)	
Members:	Permanent Secretary for Development (Planning and Lands) Deputy Secretary, Development Bureau (Planning and Lands) Director of Planning Director of Lands Director of Civil Engineering and Development Deputy Director (Strategy), Housing Department Deputy Director (Development & Construction), Housing Department	} or representatives (Deputy Director/ Principal Assistant Secretary level)
Co-opted Members:	Government Economist Director of Environmental Protection Other B/Ds if required	} or representatives
Secretary:	Chief Planning Officer, Housing Department	

Source: THB records

Diagrammatic illustration of the methodology for assessing long-term housing demand for new PRH flats



Source: THB records

Steering Committee on Land Supply

Terms of Reference

1. To coordinate the overall plans for development and supply of land in Hong Kong for different types of land uses;
2. monitor, prioritise, coordinate and steer the development of needed infrastructure in support of the timely supply of public and private housing land;
3. select the optimal options in identifying the supply of public and private housing land;
4. building up a land reserve of sufficient size for future disposal; and
5. provide a forum to resolve inter-bureau and inter-departmental issues affecting the availability of individual housing sites.

Membership

Chairman

Financial Secretary

Members

Secretary for Development

Secretary for Transport and Housing

Secretary for the Environment

Secretary for Financial Services and the Treasury

Permanent Secretary for Transport and Housing (Housing) / Director of Housing

Permanent Secretary for the Environment / Director of Environmental Protection

Director of Planning

Director of Lands

Commissioner for Transport

Director of Civil Engineering and Development

Other Principal Officials and Heads of Department may be invited to attend on a need basis

Secretary

Principal Assistant Secretary (Planning and Lands)¹, Development Bureau

Source: DevB records

Committee on Planning and Land Development

Terms of Reference

1. To oversee the formulation and review of development strategies, and sub-regional and sectoral planning studies of strategic significance;
2. To consider development proposals from both the private and non-Government sectors and, where appropriate, ensure coordination and cooperation within the Government in order to facilitate the processing and implementation of such projects;
3. To consider and review policies on production, acquisition, use and disposal of land;
4. To perform a clearing house function for determining the development density of individual Government land sale sites and developments for which lease modification or planning approval is required;
5. To consider and approve land-use planning standards and guidelines;
6. To consider the need for the preparation or replacement of statutory plans;
7. To consider and approve outline development and layout plans;
8. To consider recommendations on land-use planning and control relating to potentially hazardous installations;
9. To consider population distribution projections for assessing development needs and planning of provision of facilities; and
10. To escalate matters to the Policy Committee for attention or resolution.

Membership

Chairman

Secretary for Development

Members

Permanent Secretary for Development (Planning and Lands)

(Alternate Chairman)

Permanent Secretary for Development (Works) or representative

Permanent Secretary for Financial Services and the Treasury (Treasury) or representative

Permanent Secretary for Transport and Housing (Transport) or representative

Permanent Secretary for the Environment/Director of Environmental Protection or representative

Director of Housing or representative

Director of Civil Engineering and Development or representative

Director of Home Affairs or representative

Director of Lands or representative

Director of Planning or representative

Director of Architectural Services or representative

Government Economist or representative

Deputy Secretary (Planning and Lands) 1

Secretary

Principal Assistant Secretary (Planning and Lands) 2, Development Bureau

Source: DevB records

**Bureaux and departments involved and
their roles/responsibilities in land supply**

Bureau/department	Major roles/responsibilities
Development Bureau	<ul style="list-style-type: none"> • Provide land supply
Transport and Housing Bureau	<ul style="list-style-type: none"> • Monitor housing supply • Ensure adequate production of public housing units
Planning Department	<ul style="list-style-type: none"> • Coordinate planning matters • Prepare Outline Development Plans and OZPs • Carry out necessary land rezoning
Civil Engineering and Development Department	<ul style="list-style-type: none"> • Prepare and handle site formation and infrastructural works contracts including gazettal actions • Coordinate fill management • Comment on slope stability and geotechnical matters • Advise on blasting matters
Lands Department	<ul style="list-style-type: none"> • Process land resumption • Coordinate clearance matters • Issue possession licence
Transport Department	<ul style="list-style-type: none"> • Coordinate major traffic planning matters • Comment on Traffic Impact Assessment • Advise on road layout and capacity

Appendix F
(Cont'd)
(para. 2.37 refers)

Bureau/department	Major roles/responsibilities
Environmental Protection Department	<ul style="list-style-type: none"> • Comment on EIA • Advise on environmental nuisance control requirements • Control marine dumping
Highways Department	<ul style="list-style-type: none"> • Advise on road construction materials and maintenance responsibilities • Comment on road drainage design • Prepare gazettal actions under the Roads (Works, Use and Compensation) Ordinance (Cap. 370) as works agency
Water Supplies Department	<ul style="list-style-type: none"> • Advise and make provision for water supply
Drainage Services Department	<ul style="list-style-type: none"> • Advise and make provision of drainage connections • Advise on maintenance responsibility and drainage design • Comment on Drainage Impact Assessment

Source: THB records

**Land Supply Tracking Subcommittee of
Committee on Planning and Land Development**

Terms of Reference

1. To support monitoring of land supply by tracking the status and progress of potential sites for development, including sites earmarked for private development through land sale, for subsidised housing development, or for other development as directed by CPLD;
2. To expedite land supply by coordinating and guiding the actions of relevant departments in site production, i.e. to address and resolve issues relating to the availability and delivery of sites for development, including assigning responsibilities and setting targets;
3. To oversee the development and operation of the LSIS, including interfacing with relevant information systems of relevant B/Ds, in order to support the monitoring of land supply, tracking of site progress, and taking of actions by departments;
4. To report to the Committee on Planning and Land Development on site production progress, identifying and bringing to CPLD's attention issues affecting site production that require steer, including proposing solutions for resolving inter-departmental issues for steer as appropriate; and
5. Based on the Land Supply Information System, to provide an overview on land supply situations for regular reporting to CPLD and SCLS.

Membership

Co-Chairman

Planning and Lands Branch — Deputy Secretary (Planning and Lands)
(Principal Assistant Secretary (Planning and Lands) as alternate)

Works Branch — Deputy Secretary (Works)
(Principal Assistant Secretary (Works) as alternate)

Members (Assistant Director level or above)

Planning Department representative

Lands Department representative

Civil Engineering and Development Department representative

Housing Department representative

Transport Department representative

Highways Department representative

Environmental Protection Department representative

Drainage Services Department representative

Representatives of other relevant departments to be invited as necessary

Secretary

Assistant Secretary (Lands) / Development Bureau

Source: DevB records

**Technical studies for potential public housing sites
in the planning process**

General Studies	
1.	Site Potential Study
2.	Architectural Feasibility Study
3.	Traffic and Transport Impact Assessment
4.	Drainage Impact Assessment
5.	Sewerage Impact Assessment
6.	Noise Impact Assessment
7.	Air Quality Assessment
8.	Water Supply and Utilities Impact Assessment
9.	Geological and Geotechnical Appraisal
10.	Ground Investigation
11.	Microclimate Studies
12.	Air Ventilation Assessment
13.	Tree Survey and Impact Assessment
14.	Visual Appraisal
15.	Land Surveying
Specific Studies	
1.	Planning and Engineering Studies
2.	Land Use Assessment
3.	Land Contamination Assessment
4.	Quantitative Risk and Potentially Hazardous Installations Assessment
5.	Site Formation Assessment
6.	Natural Terrain Hazard Study
7.	Existing Slope Features Assessment
8.	Ecological Assessment
9.	Heritage Impact Assessment
10.	Retail Viability Study

Source: HD records

Case 1

Shui Chuen O Estate (Shatin Area 52)

Background

1. One of the largest PRH estates to be completed in 2015 is Shui Chuen O Estate. The site is located at Shatin Area 52 with the size of 13 hectares, in the New Territories with the estate planned for completion in four phases from mid-2014 to end of 2015. The estate will comprise 18 blocks providing 11,123 PRH units.
2. The then Territory Development Department (TDD — Note) conducted a feasibility study of potential sites in Shui Chuen O, which was endorsed by the CPLD in October 1998. It was planned to provide 2,500 HOS flats and scheduled for completion in late 2005.
3. In 1999 and 2000, the SPC and the DipCon endorsed the development parameters and development cost ceiling. The Master Layout Plan and Project Development Budget was approved by the Project Design Review Committee. An Architectural Design Competition was held in October 2000. The winning team was entrusted with the execution of the project.
4. From 2001 to 2004, site formation work was undertaken by the then TDD.
5. Due to the repositioning of housing policy in 2002, the HA decided to withdraw from the direct provision of subsidised sale flats and the production and sale of HOS flats would cease from 2003 onwards. The HA assessed the viability of converting the site for PRH in 2003. However, due to the lack of infrastructural support and the foreseeable overloading of traffic, it was considered not viable to convert the site into PRH.
6. The site was taken off the PHCP and returned to the Government and was included in the Master List of Potential Land Sale Sites for private housing development. The expenditure incurred up to January 2003 was \$70 million, which included consultant fees, site investigation work and mock up construction.

Case 1 (Cont'd)

7. At the then CHP meeting in November 2005, it was noted that many sites in the production programme were at risk, and hence additional sites and prime sites should also be considered. The PlanD identified a few proposed replacement sites for PRH development. During a meeting among the PlanD, LandsD and HD in May 2006, it was noted that the majority of the proposed replacement sites were long-term sites due to the need for rezoning, resumption, and relocation of the existing uses. Only the sites in Shatin Area 52 were more suitable as they were all formed and zoned residential.

8. In 2009, the site (2.5 hectares) together with adjacent sites (10.5 hectares) were included back in the PHCP for PRH development. The Development and Housing Committee of Shatin DC was consulted in July and December 2009. The DC supported the proposed PRH development in principle. The construction plan was then put in the 2009-10 PHCP. Phase 1 was expected to be completed in mid-2014.

Audit comments

9. Audit noted that the estate was originally expected to be completed in 2005 when it was first included in the HD's production programme in 1999. Due to the changes in the housing policy and various considerations through the years, the site would only be developed into a PRH estate after some 10 years and the construction would only be completed in 2015.

10. The case showed that sites identified in the HD's production programme could be changed due to policy change and other considerations. For PRH development, it often requires long-term planning to identify potential sites, to develop, rezone, clear and form the land to provide PRH sites. The HA should, based on a long-term housing strategy, implement measures to ensure a steady supply of PRH and PRH flats.

Source: Audit analysis of HD records

Note: It merged with the then Civil Engineering Department in 2004 to become the Civil Engineering and Development Department.

Case 2

Ex-Yuen Long Estate

Background

1. The ex-Yuen Long Estate site with the size of 1.63 hectares, was formerly used for five blocks of PRH with a total of 3,511 flats and two primary schools. The original redevelopment proposal in October 2000 was a Private Sector Participation Scheme. The proposal was dropped due to a change in housing policy.

2. The Estate was demolished in June 2003 and the site was handed over to the Government.

Local consultation

3. Around 2005, the HA got back the site from the Government and earmarked it for PRH to provide 1,988 flats in 2011-12. The consultation process started in September 2006. The Yuen Long DC and the local community objected to the use of the site for PRH development and indicated that the land should be used for Government facilities or commercial purposes instead.

4. In March 2008, the HA put forward the refined redevelopment project (reducing the PRH site to 1.4 hectares for building four blocks with about 1,600 flats) and liaised again with the DC. The proposal was not supported.

5. In May 2009, the HA liaised again with the DC of the revised schemes (reducing the PRH site to 1.2 hectares for building four blocks with about 1,300 flats). The revised proposal was still not supported in light of very strong views for private commercial development.

6. In June 2010, the HA further revised its plan to reduce the site area for PRH to 0.41 hectare (25% of the Ex-Yuen Long Estate site) for building two blocks with 390 flats and release the large portion of site area for commercial development by private sector. This finally gained the DC's support.

7. In February 2011, the DipCon approved the PB. Two domestic blocks with 437 flats would be built. The development works started in 2011 and were planned to be completed by October 2015.

Case 2 (Cont'd)

8. In March 2014, the HD explained to Audit that the HD had taken proactive measures to submit schemes for PRH development since site handover to the Government in 2003. It took years for district consultation, including agreement with the plot size designated for the PRH before the site was allowed to change back its use for PRH development.

Audit comments

9. Audit noted that the site was earmarked to be used for PRH development around 2005. However, it took a long time to change back its use for PRH development, which led to delay in the completion of the development of an estate of reduced size. It also took more than 3.5 years for the HA to reach an agreement with the DC.

Source: Audit analysis of HD records

Case 3

Inverness Road Kowloon City site

Background

1. The total cost written off under this project amounted to \$52.63 million. The amount written off was mainly staff cost incurred since 2000 amounting to \$47.41 million.
2. The Inverness Road site was originally identified as a potential site for HOS development, providing 800 HOS flats. Due to the repositioning of housing policy, in 2002, the site was transferred to PRH development for 896 PRH flats and expected to be completed in mid-2006. The then Civil Engineering Department stated that it had neither the expertise nor available resources to undertake the Land Contamination Assessment and the decontamination works of the site and therefore proposed to entrust the works to the HD. The site formation was completed by the HD in December 2004.
3. In 2005, in view of the site's prime location, the CHD and the then CHP agreed that it should be returned to the Government subject to identification of suitable replacement sites.
4. Tung Chung Area 56 was identified and allocated to the HA as the replacement. As the replacement site was larger in size and had higher flat production than Inverness Road, the HA would be required to return some other prime sites to the Government. In this connection, the HA returned ex-Valley Road Estate Phase 1 and Phase 3 in Homantin to the Government.
5. It was agreed by the B/Ds concerned (including the DevB, THB, PlanD and LandsD) that the site was more suitable for private housing development. Hence, it was included in the 2008-09 Application List announced in February 2008 and was sold at \$2.17 billion in November 2010. Since the site was auctioned, the development costs spent on the site were written off in 2011-12.

Case 3 (Cont'd)

Audit comments

6. Audit noted that the HD needed to take up the site formation of Inverness Road site in this case but with no repayment from the Government and the HA finally had to write off the development costs.
7. The replacement site Tung Chung Area 56 was originally an HOS development site in 2000 providing 3,440 HOS flats by March 2007. Due to changes in housing policy in 2002, the site was used for PRH development. The PRH estate on Tung Chung Area 56 is expected to be completed in September 2016.
8. Audit also noted that apart from the costs written off, it generally took much longer time for the HA to develop PRH flats on the replacement sites. Returning ready sites to the Government in exchange for less ready sites which had inevitably caused delays in the PRH supply as it took a long time to conduct preliminary works.

Source: Audit analysis of HD records

Case 4

Ex-Homantin Estate redevelopment site

Background

1. The breakdown of total cost of abortive works related to the site is shown below. Part of the costs was written off in the financial year 2012-13 and the remaining costs would be written off in the coming financial years.

Cost breakdown of abortive works of ex-Homantin Estate

	Particulars	Development costs (\$ million)	Clearance project adjustments (\$ million)	Total (\$ million)
(a)	Site formation	28.272	—	
(b)	Site investigation cost	9.486	—	
(c)	Soft landscape	0.941	—	
(d)	Consultancy fees for Quantity Surveyors and others	0.970	—	
(e)	Allocation of staff cost and other recurrent costs (over 88% of the expenditure was spent before year 2005 prior to the CHP's agreement to return the Homantin Redevelopment Sites to the Government)	103.241	14.057	
(f)	Sundry and miscellaneous items	2.422	—	
(g)	Demolition	—	34.688	
(h)	Ex-gratia payments	—	29.885	
	Total	145.332	78.630	

Case 4 (Cont'd)

2. The redevelopment sites comprised seven phases. A PRH block in Phase 1 was completed in 2000 and a school was built on Phase 4 which was completed in 2006. Phases 2, 3, 5, 6 and 7 were grouped in 3 sites, combining Phases 2 and 7 as Site I, part of Phases 3 and 6 as Site II and part of Phases 3 and 5 as Site III.

3. In April 2005, the CHP agreed to return the three sites to the Government for private residential development. Sites I and II were put in the Land Sale by Tender in January and April 2013 respectively, and the sites were sold separately and respectively for \$12 billion in March 2013 and for \$4 billion in June 2013. Site III was reserved for Government, Institution and Community use.

4. As the Government has no implementation programme for Site III, there is no tentative date for its return to the Government. The HA has been tasked to continue to look after it. The site is now partly a public transport interchange and partly a storage site for a contractor responsible for the alteration and addition works of Homantin Estate.

5. Since Sites I and II were already sold, the development costs for these sites including site formation, design, site care and the associated staff costs needed to be written off. These costs would be charged to the HA accounts starting from 2012-13.

6. According to the DevB and PlanD, regarding Site III, development of the primary school is in progress. However, as there is an existing public transport terminus within Site III, its development for Government, Institution and Community uses would hinge on the relocation of the public transport terminus upon completion of the new facilities.

Audit comments

7. Audit noted that the decision for return of Site III to the Government had already been made for more than 8 years. From 2005 to 2013, the HD had been liaising with the Government on the return of Site III. The Government should expedite actions to put the site into gainful use.

Source: Audit analysis of HD records

Strategic Planning Committee and Building Committee

Terms of reference

(A) Strategic Planning Committee

1. To review and endorse the corporate plan of the HA and to set strategic guidelines and planning parameters within the policies and objectives set by the HA for submission to the HA for approval;
2. To consider the viability of projects relating to public housing development and subsidised home ownership schemes and to approve the inclusion of sites in the production process;
3. To consider regular reviews of the housing demand and supply for various types of public housing and to recommend to the HA any changes necessary to meet with the policy targets;
4. To review all housing programmes related to policy targets;
5. To resolve any difference which may arise among the various standing committees of the HA in connection with or arising out of the carrying out of their various businesses; and
6. To oversee the HA's internal audit functions performed by the HD including the consideration of the implementation of agreed recommendations and the Report from the HA's external auditors (the Director of Audit) on the HA's accounts.

(B) Building Committee

1. To advise the HA on policies related to the implementation of the construction and major improvement, renovation and rehabilitation programmes and to monitor progress on these programmes; and

Appendix M
(Cont'd)
(paras. 3.2 and 3.10 refer)

2. To exercise the powers and functions of the HA in accordance with the relevant prevailing policies:
 - (a) to endorse programmes of activities and monitor their performance, and to approve the financial targets, service standards and performance measures within the policies and objectives set by the HA for submission to the HA for approval; and
 - (b) to approve project budget, master layout plans and scheme designs for public housing projects and projects under subsidised home ownership schemes.

Source: HA website

Case 5

Tuen Mun Area 18 project

Background

1. The 1.2-hectare site, Tuen Mun Area 18, was allocated for the PRH development by the CHD/CHP in mid-2004.
2. During December 2006 and November 2008, the HD had a series of consultation with Tuen Mun DC members. The DC members objected to the project because of the lack of community facilities and the unresolved public transport problem. Also, they objected the site being developed into a high density housing estate.
3. In August 2007, the SPC approved the development parameters and project construction cost ceilings for the PRH development of the site. The scheme design reserved 1,000 square metres (m²) of gross floor area for development of community hall. Yet the DC members declined to support the PRH development.
4. During the lengthy consultation, the HD revised the scheme design proposal continuously. In November 2008, the HD presented a revised scheme design proposal to the DC. The proposal comprised two 33-storey domestic blocks providing a total of 990 flats, one 2-storey stand-alone community hall and other ancillary facilities. The proposal received both support and objections from DC members.
5. In February 2009, the BC approved the project scheme design and the project budget.

Audit comments

6. Audit noted that the project was delayed because there had been a lengthy consultation between the HA and the Tuen Mun DC on the additional provision of community facilities, causing major changes to the original Project Brief. According to the PlanD, public engagement is an essential and iterative process to gauge and incorporate stakeholders' views. The time taken for public engagement varies significantly depending on the complexity and contention of individual cases. There is a limit to compress the timeframe in public engagement, which is becoming more sophisticated in order to meet the rising expectation and aspiration of the public. Where the planning and land development process has to be adjusted, revised or even started over to take into account public views, the time taken could be substantially lengthened.

Source: Audit analysis of HD records

Case 6

Redevelopment of Tung Tau Estate Block 22

Background

1. Tung Tau Estate Block 22 is a 16-storey building, completed in 1965, with 906 domestic flats. The CSI work was started in April 2007 and completed in July 2007. The structural investigation results revealed that many strengthening works had to be done to uphold structural safety. The estimated cost for carrying out the necessary repair works was about \$45.55 million. A financial viability assessment indicated that the repair option was less cost-effective than the redevelopment option.

2. In January 2008, the SPC of the HA endorsed the clearance of the Block 22 in consideration of its structural conditions, financial implications of the extensive repair works required, and poor living environment. To allow sufficient time for the rehousing arrangement and give affected households reasonable notification, the HA endorsed that the clearance date would be June 2012. It was later revised to September 2012 to tie in with the availability of reception resources.

3. A total of 840 households and 30 shop tenants (Note 1) were affected by the clearance exercise. Audit noted that, up to September 2012, all households had moved out. However, the repossession of the Block including nine shops only took place in March 2013 (i.e. 9 months after the original target clearance date) to cover the additional time for negotiation with the concerned parties involving LegCo and DC members.

4. As stated in its website of January 2014, the HD planned to redevelop the site into a new PRH block of about 700 flats by 2018-19.

Audit comments

5. ***Slow redevelopment process.*** While the whole Block was recovered by the HD in March 2013, as of February 2014, the Block still stood on the site (see Photograph 1). Upon Audit enquiry in March 2014, the HD explained that there was a staircase inside Block 22 serving as the exit staircase of the adjacent school. The HD needs to construct a standalone staircase serving as a new exit staircase for this school before Block 22 could be demolished. The demolition works is scheduled to be completed in February 2015. Audit considers that the delay in recovering the flats and redeveloping the site is undesirable as the progress of new public housing production may be affected. The HD needs to take into account all factors for better redevelopment planning in future.

Case 6 (Cont'd)

Photograph 1

Tung Tau Estate Block 22



Source: Photograph taken by Audit in February 2014

6. ***Build-back potential of the site.*** The Block had 906 domestic flats. After the redevelopment, the site was planned to be redeveloped into a new PRH block of about 700 flats by 2018-19. There will be a flat loss of 206 units (from 906 to 700 units) upon its redevelopment. Audit notes that the existing PR for the Block is 3.42 which is well below the permitted domestic PR (6 in urban area). The HD needs to optimise the use of the redevelopment sites as land resources are valuable. The HD should take measures to better utilise the redevelopment sites, such as liaising with the PlanD to raise the PR, building more flats under the permitted PR, and making use of the sitting-out area next to the site of the Block whenever possible (Note 2).

Source: Audit analysis of HD records

Note 1: These included 29 monthly-term tenancies and one three-year fixed-term commercial tenancy. The HA may terminate the tenancies by giving one month's notice to the graded shop tenants or three months' notice to the tenant on fixed-term tenancy. Provision of ex-gratia allowance and relocation arrangements would apply to shop tenancies affected by the clearance.

Note 2: According to the HD, the project officer is currently in liaison with the PlanD about raising the PR from 6 to 7, so that about 900 flats can be built with a PR of about 7. As compared with the original Block 22, the average flat size will be increased by about 30% in terms of internal floor area to house more people upon redevelopment.

Case 7

Redevelopment of Pak Tin Estate

Background

1. Pak Tin Estate was identified as one of the potential estates for redevelopment in June 2009 (see para. 4.14) and had its CSI completed in December 2010. The estate has been partially redeveloped under the CRP. It has a total of some 8,800 flats, comprising:

- (a) the older non-CRP portion: eight domestic buildings (Blocks 1 to 3 and Blocks 9 to 13) completed between 1975 and 1979; and
- (b) the newer CRP portion: five domestic buildings completed between 1993 and 1997 and seven domestic buildings completed between 1999 and 2004.

2. In November 2011, when the HA introduced the Refined Redevelopment Policy (see para. 4.18), Pak Tin Estate was identified as an estate with high redevelopment potential and promising flat gain as well as with suitable rehousing resources for a redevelopment programme. In January 2012, the HA endorsed the master plan and phased clearance for redevelopment of Pak Tin Estate. The phased redevelopment plan included the eight older non-CRP blocks which have a total of 3,500 flats. In April 2012, the HA set the final evacuation date as of April 2014 for Blocks 1, 2, 3 and 12. In September 2012, the HA further set the evacuation date for Blocks 9, 10, 11 and 13 as of September 2018.

Lift service enhancements

3. To enhance the barrier-free access for the disabled and the elderly, in 2009, the HA planned to add lifts to blocks without lifts in the PRH estates under a five-year lift addition programme. Meanwhile, a structured lift modernisation rolling programme was put in place where the conditions of all lifts over 25 years of age were evaluated. Lifts were replaced in accordance with priority based on their age, breakdown rates, and the benefits after replacement in terms of improved safety and energy efficiency. Opportunity was also taken to provide lift openings for every floor.

Case 7 (Cont'd)

4. In March 2014, the HD explained to Audit that addition of lifts is to enhance mobility of the tenants especially the senior citizens and disabled persons. The lift addition works at Blocks 2 and 12 commenced in January 2011, well before the implementation of the Refined Policy on Redevelopment of aged PRH estates, and were completed respectively in July and August 2012 (two years before the clearance date in April 2014). Upon demolition, the lifts will be re-used in other estates. This issue of lift additions was reported to the HA's SPC and LegCo's Housing Panel when the redevelopment was announced. The tender for lift addition work at Block 1 was cancelled once the redevelopment programme was confirmed.

Audit comments

5. Audit noted that Pak Tin Estate had been considered for both redevelopment and lift enhancements since 2009 and priority could have been given to move the disabled and the elderly to suitable rehousing resources. In December 2010, the HA awarded a tender of \$31.9 million for adding 4 lifts in Blocks 2 and 12 for which the clearance date was approved to be April 2014. Works for lift addition commenced in January 2011. The added lifts for Block 2 and Block 12 were opened for use on 30 July 2012 and 30 August 2012 respectively. Less than one year after the installation, by end of June 2013, 94% of the tenants for these two blocks had moved out. Audit is concerned about the short service duration for these added lifts. It is not in line with the HD's intention to coordinate the lift addition exercise and the redevelopment programme to avoid wastage of resources.

6. Audit considers that the HD should have better coordination within the department so that resources would not be wasted due to the launching of redevelopment plan shortly after the completion of the improvement works in an estate in future.

Source: Audit analysis of HD records

Case 8

Phases 3, 6 and 7 of Shek Kip Mei Estate

1. The ex-Shek Kip Mei Estate comprised some six to seven-storey buildings built in the 1950s and 1960s. In 2000, there were a total of 44 blocks. To address the community's increasing aspirations for better living conditions, the HA started in 2000 to redevelop part of Shek Kip Mei Estate by demolishing the dilapidated resettlement blocks (Note 1).

2. The older residential blocks of Shek Kip Mei Estate were redeveloped in seven phases (Phase 1 to Phase 7). Details of the redevelopment programme in Shek Kip Mei Estate by phases are given below.

**The redevelopment programme of Shek Kip Mei Estate
(January 2014)**

Phase	Gross site area (m²)	Demolition works completion date	Building works completion date	Existing land use
1	11,240	July 2001	March 2006	Two PRH blocks with 2,033 flats
2	11,430	July 2001	February 2012	Two PRH blocks with 1,558 flats
3	4,400 (Note 2)	May 2008	—	—
4	4,700	July 2001	August 2010	Construction of a primary school by the Education Bureau
5	13,700	April 2008	February 2012	Four PRH blocks with 2,496 flats
6	7,770	May 2008	—	—
7	2,500	May 2000	—	—

Case 8 (Cont'd)

3. Upon enquiry, the HD informed Audit in March 2014 that:
- (a) the sites of Phases 3 and 7 were subject to a stringent height limit of 30m under the OZP and in 2006 it was earmarked for “cultural and heritage development”. The very low development potential of the site would not be conducive for the HA to proceed with development in those days. In 2011, the HA in liaison with the PlanD reviewed the possibility of increasing the height limit of Phases 3 and 7. With the relaxed height limit, the project as a whole will have a total flat production of around 510; and
 - (b) in 2009, the HD made proposal to the Sham Shui Po DC to redevelop Phase 6 site. However, the DC members objected and bundled the PRH development with the adjacent old existing Shek Kip Mei clinic building. The HD continued active liaisons with the Government B/Ds and district consultations and finally obtained general agreement in 2013 to enable the housing development.
 - (c) Agreement from Sham Shui Po DC for the redevelopment proposal of Phases 3, 6 and 7 was finally obtained in November 2013. The detailed design was in progress targeting at project completion in 2017-18 for Phases 3 and 7, and in 2018-19 for Phase 6.

Audit comments

4. Audit noted that the demolition works of all phases of the Estate were completed during the period from 2000 to 2008. The building works of eight blocks under Phases 1, 2 and 5 were also completed during the period from 2006 to 2012. However, as in February 2014, the sites of Phases 3, 6 and 7 under the HD’s possession were left undeveloped.

Source: Audit analysis of HD records

Note 1: The redevelopment programme does not cover nine blocks not under the CRP, and the Government has decided to preserve Block 41 and rejuvenate it into a youth hostel (known as Mei Ho House Youth Hostel which has commenced business since December 2013) with an attached museum on public housing history.

Note 2: The site area is about 4,400 m² (excluding Mei Ho House which was within the development boundary of Phase 3 of area 2,765 m²).

Case 9

Shek Lei (II) IH

1. Shek Lei (II) IH comprises Blocks 10 and 11 (16 storeys each) which were built in 1968 and 1967 respectively. While originally constructed as PRH flats, they were converted into IH in the 1990s with 1,928 units. Audit noted that the overall vacancy rate of Shek Lei IH had increased from 46% in 2006 to 60% in 2014. The number of vacant units increased by 273 (30%) from 892 in 2006 to 1,165 in 2014.

2. As at 31 January 2014, the vacancy rates were 48% and 76% in Blocks 10 and 11 respectively (see details below). Among them, many units have been vacant for over 10 years.

Details of the two IH blocks in Shek Lei (II) Estate (31 January 2014)

Particulars	Block 10	Block 11
No. of storeys	16	16
Age of building	45 years	46 years
No. of IH units	1,076	852
No. of occupied IH units	558	205
No. of vacant IH units	518	647
Vacancy rate	48%	76%

3. In 2007, a CSI was carried out by the HD to ascertain whether or not Shek Lei IH blocks were structurally safe and economically sustainable (see para. 4.28). The CSI revealed that the two blocks were structurally sustainable, with repair works to be carried out to uphold the structural safety and serviceability of the buildings for another 15 years. The estimated cost of repair works was about \$26 million.

4. The HD reviewed the IH provision in 2011 and 2013. It resolved to retain Shek Lei IH and to clear Long Bin IH in January 2016. According to the HD, from an operational perspective, it is necessary to maintain Shek Lei IH because it is the only IH in Extended-urban areas to accommodate affected households of various emergencies occurred in Urban/Extended-urban areas.

Case 9 (Cont'd)

Audit comments

5. Audit noted that the maintenance and improvement costs for Shek Lei IH blocks increased from \$5.4 million in 2010-11 to \$7.4 million in 2012-13. In view of the age, increasing maintenance cost and the vacancy of the blocks, Audit considers that there is a need for the HA to explore measures to make better use of the blocks.

Source: Audit analysis of HD records

Acronyms and abbreviations

Audit	Audit Commission
AWT	Average waiting time
BC	Building Committee
B/Ds	Bureaux and departments
CHD	Committee on Housing Development
CHP	Committee on Housing Policy
CPLD	Committee on Planning and Land Development
CRP	Comprehensive Redevelopment Programme
CSI	Comprehensive Structural Investigation
DC	District Council
DCD	Development and Construction Division
DevB	Development Bureau
DipCon	District Planning Conference
DLC	District Lands Conference
EIA	Environmental Impact Assessment
EIP	Estate Improvement Programme
HA	Hong Kong Housing Authority
HD	Housing Department
HOS	Home Ownership Scheme
IH	Interim Housing
LandsD	Lands Department
LegCo	Legislative Council
LSIS	Land Supply Information System

Appendix S
(Cont'd)

LSTS	Land Supply Tracking Subcommittee
LTHS	Long Term Housing Strategy
m ²	Square metres
OZPs	Outline Zoning Plans
PBs	Planning Briefs
PHCP	Public Housing Construction Programme
PHDF	Public Housing Development Forecast
PlanD	Planning Department
PR	Plot ratio
PRH	Public rental housing
QPS	Quota and Points System
SCHLS	Steering Committee on Housing Land Supply
SCLS	Steering Committee on Land Supply
SPC	Strategic Planning Committee
STT	Short Term Tenancy
SWD	Social Welfare Department
TC	Transit Centre
TDD	Territory Development Department
THB	Transport and Housing Bureau
TPB	Town Planning Board
WL	Waiting List