

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,

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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,

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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).

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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).

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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

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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));**

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- (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.