

CHAPTER 8

Financial Services and the Treasury Bureau Government Property Agency

<p>Provision of government office accommodation and utilisation of government sites</p>
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**Audit Commission
Hong Kong
27 October 2017**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 69 of the Director of Audit contains 9 Chapters which are available on our website at <http://www.aud.gov.hk>

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PROVISION OF GOVERNMENT OFFICE ACCOMMODATION AND UTILISATION OF GOVERNMENT SITES

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PROVISION OF GOVERNMENT OFFICE ACCOMMODATION AND UTILISATION OF GOVERNMENT SITES

Executive Summary

1. Under the policy directive of the Financial Services and the Treasury Bureau (FSTB), the Government Property Agency (GPA) is responsible for providing administrative support services to all bureaux/departments (B/Ds) in respect of acquisition, allocation and management of government-owned and leased office accommodation. Its functions also include optimising the development potential of government sites through reviewing existing uses. As of December 2016, there was office accommodation of 1,023,110 square metres (m²) under the purview of the GPA, including government owned office accommodation of 715,059 m² in joint-user general office buildings (JUBs) and private developments, and leased office accommodation of 308,051 m². In addition, specialist and departmental buildings (SDBs) of 7,348,976 m² were purposely built for performing specialised functions and/or office use by one or more B/Ds and managed by the concerned B/Ds in accordance with the Accommodation Regulations promulgated by the FSTB. In 2016-17, the GPA incurred \$785.7 million under two programme areas, viz. “Acquisition and allocation” and “Estate utilisation”. Rental expenditure incurred by the GPA and relevant B/Ds on leased office accommodation was \$960 million. The Audit Commission (Audit) has recently conducted a review focusing on the GPA’s work on the provision of government office accommodation and utilisation of government sites with a view to identifying areas for improvement.

Provision of government-owned office accommodation

2. *Need to plan for more JUBs.* Government office accommodation may be provided by construction of government buildings through the Public Works Programme, direct purchase of office premises, provision in private developments under lease, or leasing in the private property market. The Government’s accommodation policy is to house offices in owned buildings as far as practicable because it is more cost-effective than leasing and has security of tenure. According to the Controlling Officer’s Reports of the GPA, the leased accommodation increased by 13% from 271,461 m² in 2006 to 308,051 m² in 2016 while the government-owned office accommodation under the GPA’s purview decreased by 0.4% from 717,679 m²

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to 715,059 m² over the same period mainly due to the decrease in the number of JUBs from 50 to 46. The affected offices of the demolished JUBs had been relocated to new SDBs or leased accommodation. Based on the 2016 returns on the annual review of office accommodation submitted by B/Ds, there were 168 requests for new office space of 94,921 m² from 2017-18 to 2021-22. While office space of 50,462 m² could be met by the release of projected surplus office space, there would still be a shortfall of 44,459 m². According to the GPA's assessment of the requests, there might be a need for a site search for a total office space of 29,591 m². However, no JUBs had been planned other than the three JUBs currently under planning/construction which would be mainly used for reprovisioning the government offices at Wan Chai Government Offices Compound (WCGOC — see para. 3 below). The GPA needs to take measures, including planning for more JUBs, to meet the additional office accommodation needs of B/Ds (paras. 2.2 and 2.4 to 2.8).

3. *Need to monitor progress of reprovisioning WCGOC offices.* As announced in the 2008-09 Budget Speech, the relocation of government offices at the WCGOC (currently providing a total floor area of 175,000 m² for about 10,000 staff of 28 B/Ds and the Judiciary) would release space in the Central Business District (CBD) to meet the demand for Grade A offices. The relocation requires the construction of nine replacement buildings. To facilitate monitoring of the relocation exercise, the FSTB has since September 2014 provided quarterly progress reports to the Financial Secretary's Office. According to the progress report of March 2017, the relocation of the WCGOC as a whole was estimated to be completed in 2025-26 the earliest. Comparing the tentative construction programmes of the replacement building projects as reported in September 2014 with those in March 2017, six projects had encountered delays mainly because of the changes in project scope to meet local needs, technical constraints and the time taken for seeking funding approval. Furthermore, the relocation of the Wan Chai Law Courts was still under planning without a projected completion date. The FSTB, in collaboration with the GPA and the Architectural Services Department (ArchSD), needs to closely monitor the implementation of the nine replacement building projects to ensure their timely completion (paras. 2.11, 2.15 and 2.16).

4. *Long time taken in implementing the West Kowloon Government Offices (WKGO) project.* Among the nine replacement building projects, the WKGO in Yau Ma Tei was an on-going project before the announcement of the WCGOC relocation plan in 2008. In 2002, the WKGO was planned for reprovisioning four government buildings in Yau Ma Tei affected by the Highways Department (HyD)'s Central Kowloon Route (CKR) project, and for de-leasing leased office

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accommodation in various areas. Following the HyD's decision in December 2006 to review the CKR alignment options, the WKGO project was suspended. With the revision of the design of the CKR in January 2008 and June 2010, the demolition of two of the four government buildings would not be required under the CKR project and the earmarked office space in the WKGO could be allocated for reprovisioning offices from the WCGOC. After obtaining funding approval of \$4,742.5 million from the Finance Committee of the Legislative Council, the WKGO contract was awarded in July 2015 for completion in early 2019. Audit examination of the long time taken in implementing the WKGO project revealed the following lessons to be learnt (paras. 2.18 to 2.20, 2.22 and 2.23):

- (a) ***Need to consider advancing part of the WKGO project for deleasing purpose.*** In December 2006, noting that the CKR consultancy study would review the need for reprovisioning the four government buildings, the ArchSD informed the GPA that it was not possible to proceed with the WKGO project as planned. However, a significant part (44% in terms of area) of the WKGO was intended for providing new accommodation and facilitating deleasing leased accommodation in various areas. It was not contingent on the CKR project and could proceed on its own. A phased construction approach for the WKGO was considered physically viable in August 2005. While such phased construction approach would have higher cost implication, the earlier provision of new offices for deleasing purpose could bring about rental saving. However, there was no record to show that the GPA had conducted a cost-benefit analysis for implementing the WKGO project by phases before deciding to defer the whole project in 2006 pending the outcome of the CKR consultancy study. In the event, the reprovisioning requirement of the CKR project was only finalised in 2010 (3.5 years later) and the consequential change in users of the planned accommodation for reprovisioning purpose caused a further delay of over one year in the scheduled implementation date of the WKGO project. Meanwhile, the estimated construction cost had also increased by 170% from \$1,557 million in July 2005 to \$4,199 million in 2011. In any event, a phased approach was adopted in 2010 to address the problem of late possession of some site area for a railway project (paras. 2.20(a) and 2.23(a)); and
- (b) ***Need to conduct public consultation at an early stage.*** According to the Project Administration Handbook issued by the ArchSD, after completing the technical feasibility study, a project team should allow adequate time for public consultations in preparing the outline plan based on the approved

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technical feasibility study, including coordination with and supporting its client to conduct public consultations at an early stage if required, and facilitate resolving public objection in a timely manner. The WKGO project was planned for implementation as a design-and-build project and was ready for conducting public consultation in August 2011 after the ArchSD had completed the revised technical feasibility study report. However, the GPA only commenced public consultation in April 2013 and obtained the support of the District Council in December 2013 after further consultation was conducted to address local concern (para. 2.23(b)).

5. ***Long time taken in identifying sites for reprovisioning two users of the WCGOC.*** Since 2008, the Planning Department (PlanD) had made efforts in identifying suitable sites for reprovisioning the WCGOC offices and the GPA had carried out matching exercises with the affected users for the identified sites. Among the 28 affected B/Ds and the Judiciary, the identification of reprovisioning sites for the Drainage Services Department (DSD) offices and the Wan Chai Law Courts had taken the longest time to finalise, i.e. in 2014 and 2016 respectively. Audit examination of the two cases revealed lessons to be learnt (para. 2.24):

- (a) ***Need to explore sites with residual development potential.*** Since 2008, the GPA had discussed with the DSD on relocating the DSD offices to various locations. In 2014, the DSD proposed to build an SDB at one of its sewage pumping station sites which was found to be technically feasible in 2015 for meeting its reprovisioning needs and maximising the site utilisation. When planning for the reprovisioning of a government-office building in future, the GPA needs to make reference to this good example and request all affected users to review whether their accommodation requirements can be met by making use of the residual development potential of an existing occupied site (Case 1 in para. 2.24); and
- (b) ***Need to consult users on key planning assumptions/parameters in estimating achievable floor area.*** While the GPA assisted the Judiciary in identifying the ex-Western Police Married Quarters site in Sai Ying Pun for relocating the Wan Chai Law Courts as early as 2008, it was only in 2012 that the GPA's estimation of the achievable gross floor area from the site based on the existing 4.5-metre (m) floor height of the Wan Chai Law Courts was found to be different from that under the prevailing law court design standard of a 7-m floor height. The site coverage was also found to be less than the assumed 100%. In the event, the proposed Sai Ying Pun

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site was considered not feasible for the reprovisioning of the Wan Chai Law Courts and another site search had to be conducted. In Audit's view, when assisting users in identifying reprovisioning sites for their offices in future, the GPA needs to consult the users and the works departments at an early stage the planning assumptions/parameters used for estimating the achievable gross floor area/net operational floor area to ensure that any proposed sites can fully meet the accommodation and operational needs of the users concerned (Case 2 in para. 2.24).

Administration of leased government offices

6. According to the GPA Manual, the objectives of leasing office accommodation are to meet short-term, urgent, location-tied accommodation needs or specific operational requirements. In selecting premises to be leased, priority should be given to suitable premises with low-rental implication (paras. 1.9 and 3.2(a)).

7. *Leases with high rental values.* In a comparison of the rentals of 170 leases with the average monthly rents of private office premises of the relevant districts/office grading/lease periods compiled by the Rating and Valuation Department (RVD), Audit found that 60 (35.3%) leases exceeded the average rents. As the RVD's average rents were for general reference only, Audit selected 3 of 6 leases which exceeded the RVD's average rents by more than 40% to examine the specific circumstances under which these leases (Leases A, B and C) were entered into or renewed (para. 3.4):

- (a) *Reasons for rejecting/not recommending leasing offers not documented for Leases A and B.* In March 2014, the Labour and Welfare Bureau (LWB) informed the GPA that a new office of about 4,800 m² for about 500 staff preferably in East Kowloon would be required in July 2014 for administering a new social welfare scheme. With the assistance of estate agents, the GPA in April 2014 identified two potential office premises for the LWB's consideration. The LWB selected the premises with a lower rental in Kwun Tong for which the GPA entered into five leases with the landlord (including Leases A and B) in February 2015 after the LWB had obtained funding approval for the new scheme. Audit noted that the estate agents had also identified seven other office premises of comparable/lower rent in three districts including Kwun Tong for the GPA's consideration but there was no documentation of the reasons for rejecting/not recommending

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these offers to the LWB for its consideration, contrary to the GPA's record-keeping requirement (para. 3.5); and

- (b) ***Alternative premises with lower-rental implication not explored before exercising option for renewal under Lease C.*** The office accommodation of 1,099 m² at a Grade B office building in Kwun Tong under Lease C had been used by the Civil Engineering and Development Department (CEDD) since 2003. The lease was renewed for a 3-year term for four times from July 2006 to July 2015 pending relocation to the WKGO. Audit found that the monthly rent of Lease C had increased significantly since 2006 to a level comparable to the RVD's average monthly rents of Grade B offices in Tsim Sha Tsui (a CBD) and Yau Ma Tei/Mong Kok, and higher than those of Kowloon Bay/Kwun Tong. Audit found that before the lease renewal in July 2009, the fitting-out cost of the CEDD's office had been fully amortised after six years of leasing. There was no record to show that the GPA had explored other alternative premises with lower-rental implication before informing the landlord in January 2009 of its intention to renew Lease C in July 2009 at a rent to be agreed. According to the GPA's valuation report prepared in May 2009 for rental negotiation with the landlord, the monthly rent of the GPA's leased office accommodation of 4,533 m² at a nearby new Grade A office building in January 2009 was \$157.5 per m², which was 43% lower than the then monthly rent of \$275 per m² under Lease C. However, there were no documented reasons for not considering this nearby lower-rental accommodation before renewing Lease C in July 2009 at a monthly rent of \$293 per m² (paras. 3.2 and 3.6).

8. ***Need to improve deleasing arrangements of leased accommodation.*** In line with the Government's accommodation policy of housing offices in owned buildings, it is an ongoing effort of the GPA to relocate B/Ds from leased accommodation through deleasing when opportunities arise. Audit selected two planned deleasing cases for examination and found room for improvement (paras. 1.11 and 3.11):

- (a) ***Planned deleasing not realised under Lease D.*** Leased accommodation of 5,243 m² on four floors of a Grade A office building in Kowloon Bay under Lease D had been used by four sections of the Social Welfare Department (SWD) since December 2003. In 2006, the GPA invited the SWD to relocate the four sections to a new JUB (scheduled for completion in 2015)

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but confirmed in 2008 that only three sections (except the Central Casefile Depository (CCD)) could be relocated. In 2012 and 2013, the SWD proposed to the GPA the relocation of the CCD (without specific location requirement) to lower-cost accommodation in view of the continued increase of case files. The GPA rejected the SWD's proposal as the rent for the Kowloon Bay office was considered low. After the relocation of the three SWD sections in mid-2015, the Kowloon Bay office was taken up by the CCD (76%) and two other SWD sections (24%). Lease D was renewed (at a monthly rent of \$265 per m²) in December 2015. Audit noted from the GPA's records that there was leased accommodation used by other B/Ds for storage purposes at lower monthly rents, ranging from \$94 to \$147 per m². The GPA needs to meet the non-location-tied storage requirements of B/Ds in a more cost-effective manner (paras. 3.12 to 3.14); and

- (b) *Two leased premises left vacant under Leases E and F.* In 2013, two sections of the Labour Department (LD) occupying areas of 344 m² and 159 m² in an office building in Quarry Bay under Leases E and F respectively were included in a relocation plan to a government-owned property in the first quarter of 2017. In 2014 and 2015, Leases E and F were renewed for a three-year fixed term (up to November 2017 and May 2018 respectively) as the GPA's effort to negotiate for a break clause was not successful. Audit noted that the leased premises had been left vacant after relocation of the LD's sections in March 2017. While the removal schedule was confirmed in October 2016, the GPA only invited B/Ds to bid for the vacant office under Lease E in May 2017. No B/Ds showed interest because of the short period of use at such short notice. For the vacant office under Lease F, the LD informed the GPA in October 2016 that it would be used by another section. However, Audit site inspections revealed that the office was still vacant up to late August 2017 (paras. 3.15 and 3.16).

Utilisation of government sites

9. *Identification of under-utilised government sites for optimal development.* According to the Government's land policy, government sites must be developed to the fullest extent possible or put to the best use. In November 2010, the Government adopted a targeted approach to identify government sites that were under-utilised, involving the GPA and the PlanD in conducting site-utilisation reviews and planning

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assessments respectively. Any redevelopment proposals for the identified sites will be submitted to an inter-B/D Property Strategy Group (PSG) for endorsement and monitoring the progress (paras. 1.13 and 4.2 to 4.4).

10. ***Need to document the justifications for site selection.*** After the 2016 site-utilisation reviews, the GPA referred 28 sites to the PlanD for planning assessment in July 2016. Having regard to the planning assessment results, the GPA shortlisted 15 sites for examination and eventually selected 4 priority sites for further action in September 2017 without documenting the justifications. The GPA needs to document the justifications on selecting sites for site-utilisation reviews (paras. 4.11 to 4.13).

11. ***Need to set priority in selecting sites for site-utilisation reviews.*** As of August 2017, there were 1,569 sites pending site-utilisation reviews by the GPA. Given that only 85 sites were selected for review each year, it would take a long time to complete the reviews. The GPA needs to set priority in selecting sites with better development potential for review and follow-up action (para. 4.14).

12. ***Need to identify a project proponent to take forward a redevelopment proposal.*** Of 18 under-utilised government sites identified by the GPA's site-utilisation reviews from 2011 to 2015, 14 were endorsed for redevelopment by the PSG. As of June 2017, one of the 14 sites had been released for redevelopment, 11 were under planning and 2 were accorded low priority. In a case study of one of the 11 sites under planning, Audit found that an ex-laboratory (with a floor area of 2,500 m²) currently used by the Leisure and Cultural Services Department (LCSD) for storage of its museum collections could be redeveloped to provide a floor area of 18,300 m² for both the LCSD and other B/Ds. However, as of September 2017, two years after the PSG's endorsement of the redevelopment of the ex-laboratory in 2015, a project proponent had not yet been determined to take forward the project. The redevelopment proposal also hinged on the identification of a reprovisioning site for the museum collections in the interim. The GPA needs to seek the steer of the PSG in identifying a project proponent and expedite action in assisting the LCSD in identifying a reprovisioning site (paras. 4.8 and 4.9).

13. ***No decision taken in implementing a proposed road project after land acquisition in 1990.*** As of June 2017, the PSG also monitored 11 potential sites brought up by the Committee on Planning and Land Development and PSG members.

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In a case study of one of the 11 sites, Audit found that a four-storey godown acquired by the Government in 1990 had been left vacant since 2008. According to the 1983 transport study, the preferred option of a proposed circumferential road in Kwai Chung would require resumption of the godown site. In 1987, the godown owner objected to the proposed road project and indicated that he planned to redevelop the site. In 1990, the Government acquired the godown site through a land exchange with the godown owner. From 1991 to 2007, the GPA leased out the godown as there was no plan for the road project. However, it was too dilapidated thereafter for short-term uses and had been left vacant for some 10 years up to August 2017. It is unsatisfactory that some 26 years after acquiring the godown in 1990, no decision had been taken on whether the proposed road project would be implemented. According to the GPA, the site was under-utilised as the maximum plot ratio could be revised from 3 to 9.5 should the site be rezoned to “Industrial” use. The Transport and Housing Bureau needs to task the Transport Department to review whether there is still a need from the transport planning perspective to implement the road project and if not, release the site for other uses as soon as possible (para. 4.10).

14. ***Omissions and discrepancies in Government Property Information System (GPIS) records.*** In 2000, the GPA developed a computerised database of government sites which was revamped into the GPIS in 2013. While the GPIS is instrumental in identifying under-utilised sites, Audit sample check revealed that there were omissions and discrepancies. For example, the pertinent site and building records of an unusable property and the site information of eight premises/buildings were missing, and the status of some government sites was not up-to-date. The GPA needs to take measures to ensure that information recorded in the GPIS is accurate and up-to-date (paras. 4.15 and 4.16).

15. ***Vacant or under-utilised specialist and departmental accommodation.*** The GPA regularly reports to the PSG on a half-yearly basis the position of vacant or under-utilised premises of specialist and departmental accommodation under the purview of individual B/Ds (which were surplus to their requirements). According to the GPA’s progress report of April 2017, as of February 2017, there were 27 such vacant or under-utilised premises of specialist and departmental accommodation, comprising one ex-secondary school with a floor area of 6,852 m² and 26 buildings (mostly vacant staff quarters in remote locations) each having a floor area of less than 500 m² (para. 4.23).

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Audit recommendations

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

- (a) take measures, including planning for more JUBs, to meet the additional office accommodation needs of B/Ds (para. 2.9);
- (b) closely monitor the implementation of the nine replacement building projects for the relocation of the WCGOC to ensure their timely completion (para. 2.25);
- (c) in implementing a JUB project in future, when there is new development affecting the progress of certain separable parts of the project, conduct a cost-benefit analysis to evaluate the possible options for taking forward the project (para. 2.26(a)(i));
- (d) in planning for the reprovisioning of a government-office building in future, critically review whether the users' accommodation requirements can be met within their existing accommodation stock (para. 2.26(b)(i));
- (e) document the reasons for rejecting/not recommending offers in the selection of premises for leasing office accommodation (para. 3.17(a)(i));
- (f) explore suitable alternative premises with lower-rental implication before exercising option for lease renewal, and document the reasons for the decision taken in this regard (para. 3.17(a)(ii));
- (g) meet the non-location-tied storage requirements of B/Ds in a more cost-effective manner (para. 3.17(b));
- (h) improve the planning for the relocation of offices from leased accommodation (para. 3.17(c));
- (i) maintain records of justifications for selecting government sites for site-utilisation review (para. 4.17(b));

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- (j) **take measures to ensure that information recorded in the GPIS is accurate and up-to-date (para. 4.17(d)); and**
- (k) **remind relevant B/Ds to explore other measures to put the 27 vacant or under-utilised premises of specialist and departmental accommodation into gainful use in accordance with the requirements of the Accommodation Regulations (para. 4.27(a)).**

Response from the Government

17. The Government generally agrees with the audit recommendations.

PART 1: INTRODUCTION

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

Background

1.2 The Financial Services and the Treasury Bureau (FSTB) has policy responsibility for government accommodation matters and is the authority for the issue and amendment of the Accommodation Regulations. Under the policy directive of the FSTB, the Government Property Agency (GPA — Note 1) is responsible for providing administrative support services to all bureaux/departments (B/Ds) in respect of acquisition, allocation and management of government-owned and leased office accommodation. Headed by the Government Property Administrator, the GPA's main functions include:

- (a) meeting government accommodation needs for offices through construction, purchase or leasing;
- (b) allocating appropriate accommodation to users and setting space and furniture standards; and
- (c) optimising the development potential of government sites through reviewing existing uses and encouraging joint user development.

1.3 The GPA's operational functions are carried out by five functional divisions. The Acquisition, Allocation and Disposal Division (ADD) is responsible for the acquisition of office accommodation through construction, purchase or leasing; allocation of such accommodation for the use of B/Ds; and deleasing of leased accommodation. The Site Utilisation Division (SUD) is responsible for examining all matters relating to optimising the utilisation of land resources designated for

Note 1: *In April 1990, the GPA was established to take over the responsibility for dealing with various aspects of government property matters from the Government Secretariat, the then Buildings and Lands Department, and the Rating and Valuation Department.*

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government, institution or community (G/IC) purposes, and letting out of surplus government accommodation. An organisation chart of the GPA is at Appendix A.

1.4 According to its Controlling Officer's Report, the GPA spent a total of \$785.7 million in 2016-17 under the two programme areas, namely "Acquisition and allocation" and "Estate utilisation" (Note 2). As of March 2017, 163 staff were involved in the work under the two programme areas.

Provision of government office accommodation

1.5 According to the Accommodation Regulations, one of the GPA's objectives is to keep an overview of the Government's short-term and long-term office accommodation needs, and meet these needs in an economical and cost-effective manner, typically in government-owned premises supplemented when necessary by leased accommodation. When there is a shortage of office accommodation, the pertinent B/Ds may apply for allocation of accommodation and submit a schedule of accommodation stating their requirements to the GPA for vetting and follow-up action. If a request for additional office accommodation cannot be met by allocation of existing stock of accommodation, it may be provided by one of the following alternatives, subject to the availability of funds:

- (a) ***Construction through the Public Works Programme (PWP).*** For joint-user general office buildings (JUBs), the GPA will assume a coordinating role in seeking funds for the construction of the buildings and allocating the space therein to the user departments. For specialist and departmental buildings (SDBs — Note 3), the proponent/user

Note 2: *The "Estate utilisation" programme covers both the site utilisation and the disposal of surplus quarters. This audit review does not cover the disposal of staff quarters which was covered in a review of "Management of surplus quarters" and the results of which were reported in Chapter 1 of the Director of Audit's Report No. 62 of April 2014.*

Note 3: *SDBs are buildings (e.g. standalone departmental headquarters buildings, law courts, police stations, libraries, museums, clinics, town halls and community centres) and structures (e.g. sewage treatment plants) used to meet the policy objectives and/or operational needs of pertinent B/Ds. While they are generally occupied by a single department for performing specialised functions and/or office use, they may sometimes accommodate more than one department (e.g. the Central Government Offices) and in that event are referred to as multi-user SDBs.*

department/leading department (in the case of a multi-user SDB) is responsible for seeking funds to obtain the accommodation required as well as recurrent and other costs for operating and maintaining the new facilities. A proponent/user department should justify the location, floor space and operational requirements of an SDB (Note 4);

- (b) **Direct purchase.** Office accommodation may be acquired from private developments to meet urgent and permanent accommodation needs, where government-owned accommodation cannot cater for such needs and where leasing or construction are not viable alternatives. The proponent/user department is responsible for seeking funding approval through the PWP procedures for the purchase;
- (c) **Provision through lease conditions in private developments.** G/IC facilities (e.g. social welfare facilities and government offices) may be provided in private developments under lease conditions imposed by the Lands Department (LandsD) in land sale, land grant or exchange, or by the Planning Department (PlanD) in approved planning brief to meet the needs of government departments; and
- (d) **Leasing.** Premises may be leased from the Housing Authority or from the private sector to meet the accommodation needs of government users, which are either short-term, urgent or location-tied, or where owned accommodation is not available or where purchase and construction are less technically or economically feasible alternatives.

1.6 As of December 2016, there were 1,023,110 square metres (m²) of office accommodation under the purview of the GPA, including government-owned office accommodation of 715,059 m² in JUBs and private developments, and leased office accommodation of 308,051 m². In addition, SDBs of 7,348,976 m² were purposely built for performing specialised functions and/or office use by one or more B/Ds and managed by the concerned B/Ds (see Note 3 to para. 1.5(a)). Figure 1 shows the different types of government accommodation for meeting B/Ds' office and operational needs. In 2016-17, the rental expenditure of leased office accommodation

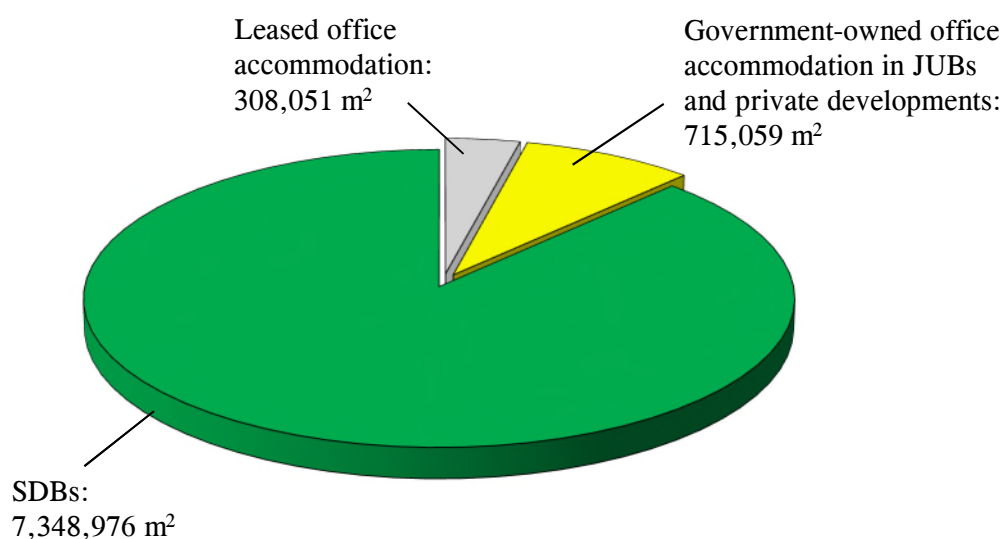
Note 4: *The schedule of accommodation for an SDB is vetted by the Property Vetting Committee which is chaired by an Assistant Director of the Architectural Services Department and comprises representatives of the FSTB and the GPA as members.*

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was \$960 million (see Note 19 to para. 3.2(a)). This review mainly focused on government office accommodation managed by the GPA.

Figure 1

**Types of government accommodation
for meeting B/Ds' office and operational needs
(2016)**



Source: Audit analysis of GPA records

Remarks: The GPA does not maintain records of office areas in an SDB. Based on the relevant B/Ds' classification on the use of their SDBs, some 872,600 m² of the SDBs were designated for office use as of April 2017.

1.7 **Annual review and forecast.** According to the Accommodation Regulations, B/Ds should see if there is a continued need for all the office accommodation in government-owned and leased accommodation allocated to them once a year. They are required to explore and exhaust all space-saving opportunities through internal rationalisation of space before putting forward a request for additional office accommodation. Based on the annual review of office accommodation (AROA), B/Ds should provide a return on any request for additional office accommodation and surplus accommodation (excluding SDBs which should be

reported separately in the annual stewardship statement exercise — Note 5). Under the AROA exercise, B/Ds are only required to report surplus accommodation exceeding 50 m², which may need to be surrendered to the GPA, and are encouraged to submit proposals on the rationalisation of accommodation or co-location, where feasible, to achieve savings. The GPA will then coordinate and compile annual forecasts on departmental requirements for additional office accommodation for planning purposes. According to the Accommodation Regulations, when government accommodation becomes surplus to requirement and cannot be put to alternative long-term use within the Government, the B/Ds concerned should consider other appropriate means of putting the surplus government accommodation to gainful use, including interim alternative use within the Government, commercialisation and direct leasing. The GPA will try to identify alternative government users. Based on the GPA's work report of 2016, the occupancy rate of office accommodation had been maintained at 99.9%.

1.8 Apart from meeting additional office accommodation demand, the provision of new government-owned premises is necessary from time to time in order to achieve the following government policy initiatives:

- (a) ***Relocation out of high-value areas.*** In 1994, the then Finance Bureau issued a memorandum on the location of general office accommodation specifying the Government's policy to decentralise general office space (i.e. those without specific location requirements) out of high-value areas of Hong Kong Island and Kowloon, and to move the offices to lower-value areas which were well served by public transport. When relocation of government offices was contemplated, various factors such as the operational needs of B/Ds, impact on the delivery of public services and cost-effectiveness would be considered;

Note 5: *The purpose of the exercise is to report, among others, non-financial information (in terms of areas) of government-owned buildings employed by B/Ds for the delivery of public services as at the end of a financial year, which is published together with the Government's annual accrual-based accounts. B/Ds are required to confirm to the Treasury the asset inventory under their control and separately inform the GPA of any surplus SDB accommodation.*

- (b) ***Releasing space in Central Business Districts (CBDs — Note 6) for developing Grade A offices.*** In his 2008-09 Budget Speech, the Financial Secretary said that according to the “Hong Kong 2030: Planning Vision and Strategy” published by the Development Bureau (DEVB) and the PlanD in 2007, the Government should identify more sites for developing Grade A offices (Note 7) in CBDs in order to keep the economy growing. The Government would study the relocation of three government office buildings (i.e. Wan Chai Tower, Immigration Tower and Revenue Tower) at the Wan Chai waterfront (hereinafter referred to as the Wan Chai Government Offices Compound — WCGOC) to other districts so as to release land in the CBD. The WCGOC with a total floor area of 175,000 m² has provided accommodation for about 10,000 staff of 28 B/Ds and the Judiciary. According to the consultancy study entitled “Review of Land Requirement for Grade A Offices, Business and Industrial Uses” completed in 2017 as input to the on-going “Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030” Study, it was estimated that there was a shortfall of about 140,000 m² (in gross floor area (GFA — Note 8)) of CBD Grade A offices in 2013 and the shortfall would increase to 1.06 million m² in GFA in 2041. In July 2017, the Secretary for Development said that the Government would continue to pursue the strategic planning proposals, including the relocation of government office buildings or government offices taking up private office spaces with no requirements for a CBD location so as to free up spaces in the CBDs for private office use; and

Note 6: *For the purpose of the “Hong Kong 2030: Planning Vision and Strategy” published in 2007 by the Development Bureau and PlanD, CBD is defined as the business zones within Central, Wan Chai, Sheung Wan, Causeway Bay, Tsim Sha Tsui and the West Kowloon Reclamation.*

Note 7: *According to the Hong Kong Property Review published by the Rating and Valuation Department, a Grade A office building has the following features: modern with high quality finishes; flexible layout; large floor plates; spacious; well decorated lobbies and circulation areas; effective air-conditioning; good lift services for passengers; professional management and parking facilities normally available.*

Note 8: *GFA refers to the area contained within the external walls of the building measured at each floor level, together with the area of balcony and the thickness of the external walls of the building.*

- (c) ***Providing more facilities for convention and exhibition activities.*** In her Policy Address of October 2017, the Chief Executive of the Hong Kong Special Administrative Region announced that:
- (i) the Government would demolish and redevelop the WCGOC next to the Hong Kong Convention and Exhibition Centre into a new wing that could be connected to and integrated with the existing Centre; and
 - (ii) hotel facilities, which would complement the convention and exhibition activities, and Grade A office space, which could help alleviate the market shortfall, could be built on top of the new convention and exhibition venue.

Under the AROA (see para. 1.7), B/Ds are required to submit a return on accommodation in CBDs, in which B/Ds should report whether their offices in the CBDs can be relocated to other districts and provide justifications if their offices cannot be relocated outside the CBDs.

Leasing and deleasing of office accommodation

1.9 ***Leasing.*** According to the GPA Manual, the objectives of leasing office accommodation are to:

- (a) meet short-term, urgent, location-tied accommodation needs or specific operational requirements; and
- (b) endeavour to obtain the best overall deal (i.e. achieving the pledged rental level of 5% below the net effective market rent) in respect of the leased premises for the Government.

1.10 ***Selection of premises.*** After a decision is taken to lease from the private sector, the ADD:

- (a) conducts a site search and identifies the premises that meet user's requirements most cost-effectively;

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- (b) inspects and assesses suitability of the target premises and consults the client department and the Architectural Services Department (ArchSD);
- (c) makes a valuation of the premises to assess the reasonableness of the landlord's asking rent and to set a ceiling rent for negotiation, and scrutinises whether the offered service charges are acceptable; and
- (d) negotiates on the rental package, scrutinises and executes the tenancy agreement.

1.11 ***Deleasing.*** The Government's accommodation policy is to house offices in owned buildings and reduce reliance on leasing. According to the GPA, there is an ongoing effort to relocate B/Ds from leased accommodation to government-owned accommodation through deleasing when opportunities arise to reduce recurrent expenditure on commercial leasing.

Utilisation of government sites

1.12 In the 1997 Policy Address, the Government announced a new site utilisation initiative to:

- (a) provide a proactive and systematic approach to the planning of government buildings projects;
- (b) review the existing and planned use of government sites through the setting up of a comprehensive database;
- (c) support government departments in reviewing site requirements and coordinate joint users developments to optimise the use of sites; and
- (d) create a prioritised programme for releasing and redeveloping under-utilised government sites comprising a rolling programme to incorporate a number of new sites each year.

1.13 In 2000, the GPA set up a computerised database of G/IC sites, which was revamped into the Government Property Information System (GPIS) in 2013. In

2010, the Government adopted a targeted approach to identify government sites that were under-utilised, involving the GPA, the PlanD and the Property Strategy Group (PSG — Note 9) which were tasked with different roles. As of May 2017, of the 3,794 sites in the GPIS, 25 sites were under monitoring by the PSG.

Audit review

1.14 In 1997, the Audit Commission (Audit) conducted a review of “The provision of accommodation for government use”. The results were reported in Chapter 8 of the Director of Audit’s Report No. 29 of October 1997. In 2004 and 2008, Audit completed two other reviews, namely “Utilisation of government sites” and “Commercialisation and utilisation of government properties”, the results of which were reported in Chapters 10 and 2 of the Director of Audit’s Reports No. 42 of March 2004 and No. 50 of March 2008 respectively. In May 2017, Audit commenced a review of the GPA’s work on the provision of government office accommodation and utilisation of government sites. The review focuses on the following areas:

- (a) provision of government-owned office accommodation (PART 2);
- (b) administration of leased government offices (PART 3); and
- (c) utilisation of government sites (PART 4).

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

Note 9: *The PSG is chaired by the Permanent Secretary for Financial Services and the Treasury (Treasury). Its members comprise officers from the GPA, the DEVB, the FSTB, the Home Affairs Department, the ArchSD and the PlanD. Appendix B shows the terms of reference of the PSG.*

Acknowledgement

1.15 Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the FSTB, the DEVB, the Transport and Housing Bureau, the GPA, the Judiciary, the ArchSD, the Census and Statistics Department (C&SD), the Civil Engineering and Development Department (CEDD), the Drainage Services Department (DSD), the Highways Department (HyD), the LandsD, the Leisure and Cultural Services Department (LCSD), the Labour Department (LD), the PlanD, the Registration and Electoral Office (REO), the Social Welfare Department (SWD), and the Transport Department (TD) during the course of the audit review.

PART 2: PROVISION OF GOVERNMENT-OWNED OFFICE ACCOMMODATION

2.1 This PART examines the provision of government-owned office accommodation, focusing on:

- (a) planning of joint-user general office buildings (paras. 2.2 to 2.10); and
- (b) reprovisioning of offices of the Wan Chai Government Offices Compound (paras. 2.11 to 2.29).

Planning of joint-user general office buildings

2.2 *Government's accommodation policy.* According to the FSTB, the Government's accommodation policy is to house offices in owned buildings as far as practicable. As mentioned in paragraph 1.5, government office accommodation may be provided by construction of government buildings through the PWP, direct purchase of office premises, provision in private developments under lease, or leasing in the private property market. The provision of government-owned office accommodation has a number of advantages over leasing:

- (a) it is more cost-effective;
- (b) it has security of tenure; and
- (c) it can better meet users' special requirements, especially those involving extensive and expensive fittings.

2.3 In line with the Government's accommodation policy, the GPA is responsible for meeting B/Ds' short-term and long-term office accommodation needs typically in government-owned accommodation (e.g. JUBs) supplemented where necessary by leased accommodation.

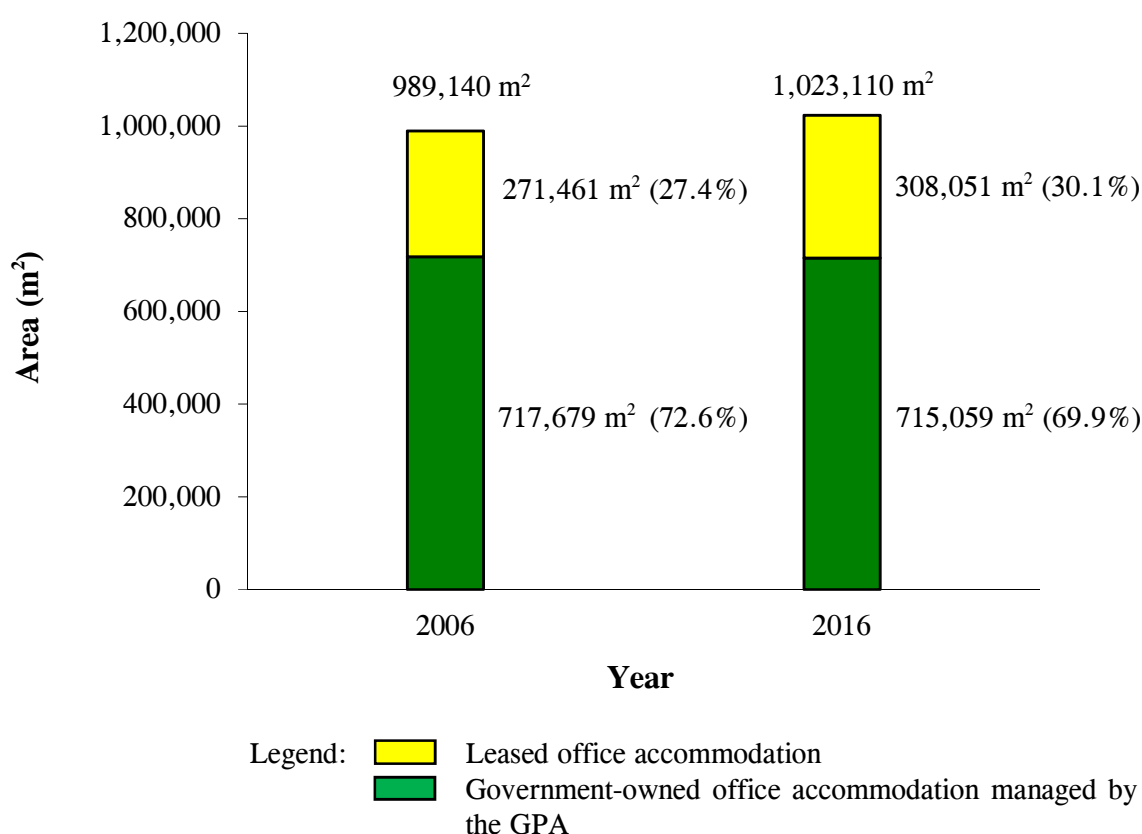
2.4 *Increase in leased office accommodation.* In the 1997 audit review (see para. 1.14), Audit expressed concern over the increase in leased office

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accommodation from 209,042 m² in 1993-94 by 28% to 268,000 m² in 1997-98 (i.e. an increase from 20% to 23% of the total office space). In response, the FSTB and the GPA said that it was the Government's policy to relocate users to government-owned premises whenever possible. However, over the years, the leased office accommodation continued to grow. According to the Controlling Officer's Reports of the GPA, the leased accommodation increased by 13% from 271,461 m² in 2006 to 308,051 m² in 2016 while the government-owned office accommodation under its purview decreased by 0.4% from 717,679 m² to 715,059 m² over the same period (Note 10). As a result, leased office accommodation accounted for 30.1% of the total office space in 2016, up from 27.4% in 2006 (see Figure 2).

Figure 2

Increase in leased office area among the office accommodation managed by the GPA (2006 to 2016)



Source: GPA records

Note 10: According to the GPA, the reported government-owned office accommodation excludes those SDBs occupied and directly managed by B/Ds.

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2.5 Audit examination revealed that the decrease in government-owned office accommodation under the GPA's purview from 2006 to 2016 was mainly attributable to the decrease in the number of JUBs from 50 to 46 (Note 11) resulting in a reduction of office space of some 6,700 m². While the decrease was partly offset by additional office space of some 4,100 m² acquired by the GPA through purchase/exchange of properties in private developments and conversion of surplus government-owned accommodation (e.g. quarters/bungalows) for office/storage use, there was a net reduction of 2,600 (6,700 – 4,100) m². As for the increase in leased accommodation from 2006 to 2016, the GPA informed Audit in September 2017 that it was to meet additional space requirements arising from service expansion and new initiatives. The GPA expected that leased office accommodation would decrease with the completion of the planned JUBs.

Need to plan for more JUBs

2.6 Based on the 2016 AROA returns submitted to the GPA by B/Ds (see para. 1.7), Audit found that there were 168 requests for new office space of 94,921 m² for the five-year period from 2017-18 to 2021-22. While B/Ds' projected surplus office space (Note 12) of 50,462 m² could be released for meeting part of the new office space demand, there would still be a shortfall of 44,459 m².

2.7 Audit noted that in July 2017, the GPA informed the PlanD that:

- (a) having considered B/Ds' accommodation requests in hand in the short and medium terms (in 3 to 5 years) based on the AROA, there were no bids from B/Ds for a stand-alone site; and

Note 11: *From 2006 to 2016, four JUBs (i.e. the Canton Road Government Offices Building, the Middle Road Multi-storey Carpark Building, the ex-Government Flying Services Headquarters Building and the Kwun Tong District Branch Offices Building) were demolished and one JUB (i.e. Trade and Industry Department Tower) was sold while only one JUB (i.e. the Trade and Industry Tower) was built. The offices vacated from the demolished JUBs had been relocated to new SDBs (e.g. Customs Headquarters Building in North Point) or leased accommodation.*

Note 12: *According to the GPA's circular memorandum to B/Ds on the AROA return of October 2016, surplus office space should include accommodation in JUBs and leased premises which might be released, and demand for new office space included those with support from the pertinent policy bureaux.*

Provision of government-owned office accommodation

- (b) B/Ds had been advised that no permanent government-owned premises would be available and they were requested to approach the PlanD for a site search for constructing SDBs to meet the long-term accommodation needs, where appropriate. In this connection, the GPA forwarded a list of 29 requests for a total office space of 29,591 m² (Note 13) which might require the PlanD's assistance for site search. According to the GPA, the 29 requests were shortlisted from the 168 requests in the 2016 AROA returns (see para. 2.6) based on the following criteria:
- (i) accommodation requirements exceeding 500 m² each;
 - (ii) accommodation plan not rejected by the GPA (e.g. co-location plans would normally be rejected);
 - (iii) accommodation requirements on a permanent basis; and
 - (iv) site search not yet commenced or outstanding for a prolonged period.

2.8 In other words, no new JUBs nor SDBs had been planned for meeting the additional accommodation needs of B/Ds (29,591 m² — see para. 2.7(b)) for the five-year period from 2017-18 to 2021-22. The GPA needs to take measures, including planning for more JUBs, to meet the additional office accommodation needs of B/Ds.

Audit recommendation

2.9 **Audit has recommended that the Government Property Administrator should take measures, including planning for more JUBs, to meet the additional office accommodation needs of B/Ds.**

Note 13: *The additional space requirements could not be fully met by the three JUBs (i.e. the West Kowloon Government Offices, the Treasury Building and the Tseung Kwan O Government Offices Building) in the pipeline. This was because they would be mainly used for reprovisioning WCGOC offices (see para. 2.11), and could only provide a total area of 8,200 m² to meet new office accommodation demand.*

Response from the Government

2.10 The Government Property Administrator agrees with the audit recommendation. He has said that the GPA will continue to take steps to meet the Government's needs for general office accommodation through construction of new JUBs and/or other alternatives as mentioned in paragraph 1.5.

Reprovisioning of offices of the Wan Chai Government Offices Compound

2.11 In his 2008-09 Budget Speech, the Financial Secretary announced that the relocation of government offices at the WCGOC would release space in the CBD to meet the demand for Grade A offices (see para. 1.8(b)). The relocation of the WCGOC is a mega project as it involves a total floor area of 175,000 m² for about 10,000 staff of 28 B/Ds and the Judiciary. The relocation requires the construction of nine replacement buildings (see Table 1 in para. 2.15). According to the GPA, in planning the replacement building projects, additional space for community facilities and relocation of other government offices currently accommodated in leased premises or government sites have been factored in so as to optimise site utilisation and reduce rental expenditure.

2.12 In March 2008, the GPA issued a circular memorandum to the affected users calling for returns on their office accommodation requirements for vacating the WCGOC and their preference of seven identified replacement sites (three in Kai Tak and another four in various districts, namely Tseung Kwan O, Cheung Sha Wan, Tung Chung and Tin Shui Wai). In November 2009, the GPA completed a study report on the proposed relocation plan. According to the report:

- (a) the Wan Chai Law Courts (comprising the District Court, Family Court, Small Claims Tribunal and other court support services) occupied a net operational floor area (NOFA — Note 14) of 26,834 m² in the WCGOC.

Note 14: *The NOFA refers to the floor area actually allocated to the users for carrying out their intended activities. For example, the NOFA does not include areas for toilets, bathrooms and shower rooms, lift lobbies, stair halls, public/shared corridors, stairwells, escalators and lift shafts, parking spaces, loading and unloading areas and mechanical plant rooms.*

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While noting the Judiciary's requirement on relocating the Wan Chai Law Courts within the CBDs of Hong Kong, the GPA and the PlanD identified two sites for the relocation, namely the ex-Western Police Married Quarters and the ex-Western Magistracy Building, both in Sai Ying Pun, which were outside the CBDs; and

- (b) after consulting the relevant users, the Tin Shui Wai and Tung Chung sites were considered to be remote and not suitable.

2.13 ***Relocation approach and allocation principle.*** In September 2010, the GPA requested the affected users to provide the latest space requirements and the schedules of accommodation. In April 2012, the FSTB issued a memorandum to the affected users on the planning of the phased relocation of users' offices from the WCGOC, specifying that:

- (a) ***Relocation approach.*** The relocation exercise would be taken forward on an incremental basis by relocating offices from the WCGOC in phases as and when government office premises available for reprovisioning came on stream, including the West Kowloon Government Offices (WKGO — see para. 2.18);
- (b) ***Allocation principle.*** Based on the site preferences of concerned users as indicated in their returns to the GPA in 2008 and taking into account floor space available at the replacement sites, the GPA would work with users concerned on the space allocation in accordance with the following principles:
 - (i) offices providing frontline services would have priority over others in being allocated with space in government-office buildings in urban areas;
 - (ii) accommodation would be allocated to users primarily based on the existing floor space of their offices at the WCGOC. Additional space might be considered subject to justifications for the extra allocation and availability of floor space at the replacement sites;

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- (iii) requests for putting together the offices (i.e. co-location of offices) currently housed in non-WCGOC premises would not be considered normally unless there was a strong case for the co-location (such as resulting in deleasing savings or releasing office space in high-value areas) and subject to availability of surplus floor space at the replacement sites; and
 - (iv) to ensure that office space would be put to the best possible use, users were requested to critically review their accommodation needs and put up requests for additional space only where justified; and
- (c) **Way forward.** The GPA would approach the concerned users by phases to discuss details of the relocation exercise, including reprovisioning proposals, space allocation, as well as the necessary preparatory work and schedule for bidding capital works resources (see para. 1.5(a)). Users were requested to render their full support to the relocation exercise and proceed with the preparatory work as necessary to facilitate the delivery of the initiative.

2.14 ***Nine replacement projects proposed.*** As of May 2013, other than the DSD and the Judiciary, the GPA drew up the relocation plan for 27 B/Ds with seven new replacement building projects proposed (see Projects 1 to 7 in Table 1 of para. 2.15). In May 2014, the DSD proposed to the GPA the construction of a new SDB for reprovisioning its Headquarters (HQs) and offices in WCGOC (see Project 8 in Table 1 of para. 2.15). In May 2016, the Judiciary agreed in principle to relocate the Wan Chai Law Courts to a new District Court Complex at a CBD site in Causeway Bay (see Project 9 in Table 1 of para. 2.15).

Provision of government-owned office accommodation

2.15 *Submission of quarterly progress reports to the Financial Secretary.* The FSTB is responsible for monitoring the implementation of the nine replacement building projects. In April 2014, the FSTB and the GPA submitted a progress report on the relocation exercise to the Financial Secretary. The Financial Secretary did not agree with the proposed timing in the progress report and requested speeding up the process and reducing the time required. The Financial Secretary also said that there should be a monitoring mechanism with key markers so that the FSTB could keep a close watch on the progress. In the same month, the FSTB informed the GPA that in order to facilitate the close monitoring of the WCGOC relocation project, the FSTB, with the input of the GPA, should provide a quarterly progress report to the Financial Secretary setting out the brief details of the replacement building projects, the latest progress and constraints/difficulties encountered. Since September 2014, the FSTB had submitted the quarterly progress reports to the Financial Secretary's Office. Table 1 shows the reported progress of the nine replacement building projects as of March 2017. Figure 3 shows the tentative construction programmes of eight projects (except the District Court Complex project which was under preliminary planning — see Project 9 in Table 1) based on the progress reports of September 2014 and March 2017.

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Table 1

**Progress of nine replacement building projects
for relocation of offices at the WCGOC
(March 2017)**

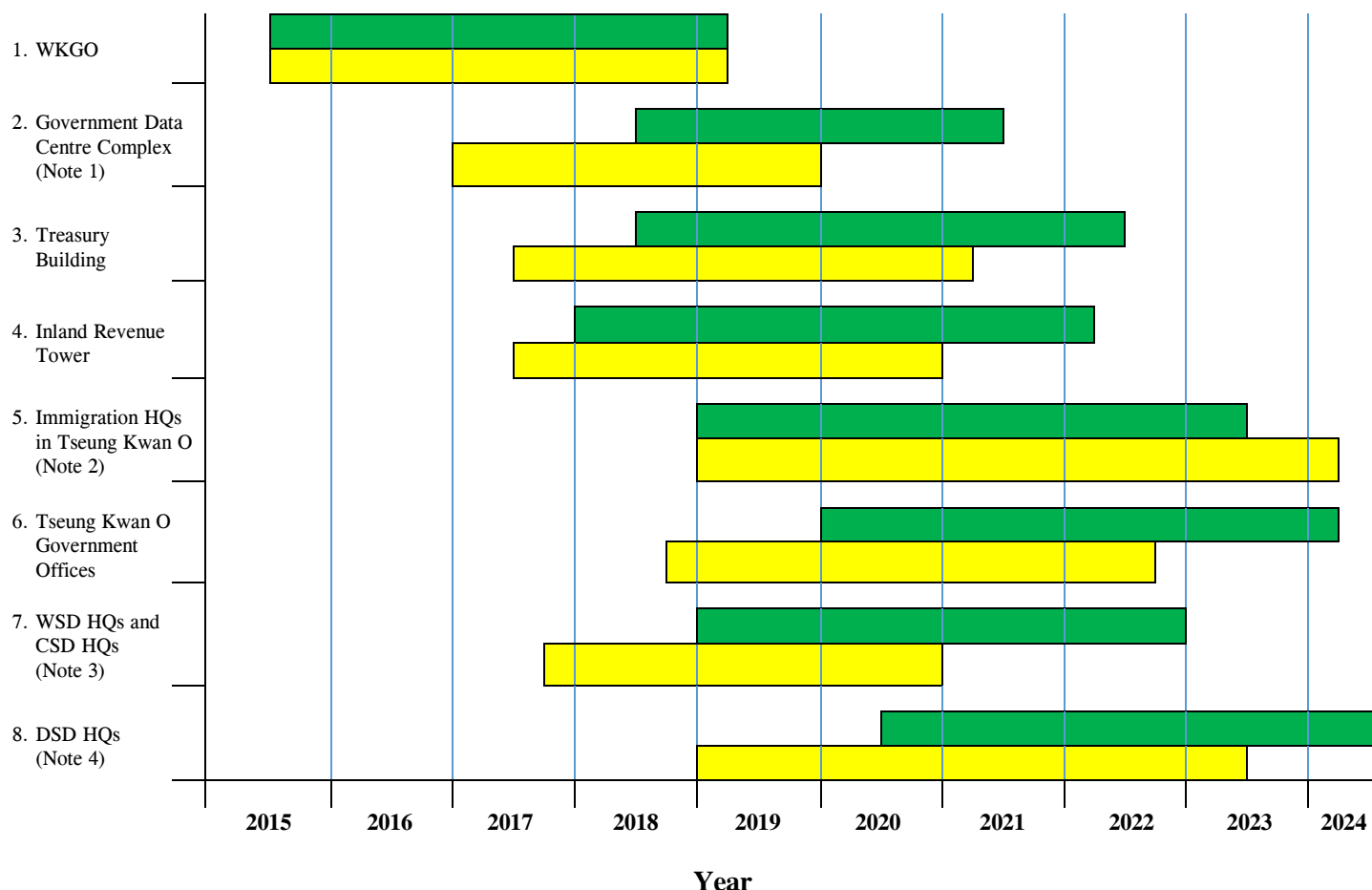
Project	Replacement building projects	Percentage of office space for reprovisioning the WCGOC (Note)	Progress
1 (JUB)	WKGO in Yau Ma Tei	22%	Design-and-build contract awarded in July 2015 and foundation works in progress
2 (SDB)	Government Data Centre Complex in Cheung Sha Wan	54%	Pre-construction consultancy contract awarded in November 2015 and design in progress
3 (JUB)	Treasury Building in Cheung Sha Wan	64%	Pre-construction consultancy contract awarded in March 2016 and design in progress
4 (SDB)	Inland Revenue Tower in Kai Tak	100%	Tenders for design-and-build contract invited in January 2017
5 (SDB)	Immigration HQs in Tseung Kwan O	73%	Prequalification tenders to be invited in April 2017
6 (JUB)	Tseung Kwan O Government Offices in Tseung Kwan O	54%	District Council consultation conducted in January 2017 and planning in progress
7 (SDB)	Water Supplies Department (WSD) HQs and Correctional Services Department (CSD) HQs on Hong Kong Island	58%	Technical feasibility study approved in November 2016 and planning in progress
8 (SDB)	DSD HQs in Kowloon	35%	Technical feasibility study approved in December 2016 and planning in progress
9 (SDB)	District Court Complex in Causeway Bay	Not yet available	Preparation of project definition statement by the Judiciary in progress

Source: GPA records

Note: According to the GPA, the percentage of office space for reprovisioning the WCGOC would be subject to revision. In planning for the replacement building projects, additional space for community facilities and relocation of other government offices currently in leased accommodation has been factored in (see para. 2.11).

Figure 3

Tentative construction programmes of eight replacement building projects based on the progress reports of September 2014 and March 2017



Legend: Tentative construction programme of March 2017
 Tentative construction programme of September 2014

Source: GPA records

Note 1: According to the Information Technology Bureau, the project would commence in late 2018.

Note 2: According to the Immigration Department, the project would commence in the first quarter of 2019.

Note 3: According to the CSD, the construction programme was tentative only and further progress would depend on various factors. Relevant B/Ds would continue to work together in pursuing the project.

Note 4: According to the DSD, as a result of a review completed in July 2017, the project would commence in September 2019 for completion in September 2023.

Remarks: The tentative construction programme for the District Court Complex project was not yet available because it was still under preliminary planning (see Project 9 in Table 1).

Provision of government-owned office accommodation

2.16 *Need to monitor progress of reprovisioning WCGOC offices.* According to the progress report of March 2017 submitted to the Financial Secretary, the relocation of the WCGOC as a whole was estimated to be completed in 2025-26 the earliest. As shown in Figure 3 of paragraph 2.15, comparing the tentative construction programmes of the replacement building projects as reported in September 2014 with those in March 2017, six projects had encountered delays. According to the GPA, the changes in tentative completion dates were mainly due to changes in project scope to meet local needs, technical constraints and the time taken for seeking funding approval. The relocation of the Wan Chai Law Courts was still under planning without a projected completion date. The FSTB, in collaboration with the GPA and the ArchSD, needs to closely monitor the implementation of the nine replacement building projects to ensure their timely completion.

2.17 *Audit examination.* Audit examination of the relocation exercise of the government offices in the WCGOC has revealed room for improvement in:

- (a) implementation of the WKGO project (see paras. 2.18 to 2.23); and
- (b) identification of suitable sites for reprovisioning two users of the WCGOC (see para. 2.24).

Implementation of the WKGO project

2.18 Among the nine replacement building projects, the WKGO project (see Project 1 in Table 1 of para. 2.15) was an on-going project before the announcement of the WCGOC relocation plan in 2008 (see para. 2.11). The WKGO, located at Yau Ma Tei, would comprise two blocks of 15 and 17 storeys respectively, providing an estimated total NOFA of around 50,500 m² and an underground car park. In 2002, the ArchSD completed a feasibility study of the WKGO project which was then planned for:

- (a) reprovisioning four blocks of government buildings in Yau Ma Tei (i.e. the Kowloon Government Offices, Yau Ma Tei Multi-storey Carpark Building, Yau Ma Tei Jockey Club Polyclinic and the Department of Health's facilities at Yau Ma Tei Specialist Clinic Extension) which would be

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affected by the construction of the HyD's Central Kowloon Route (CKR — Note 15); and

- (b) providing new government offices to facilitate de-leasing leased office accommodation and meeting new requirements.

2.19 The WKGO project was included in the PWP in July 2003 and funding was earmarked in 2005 for proceeding with the relevant planning work. In July 2005, the GPA informed the FSTB that:

- (a) the four affected government buildings should be vacated by April 2010 when the construction of the CKR was planned to start; and
- (b) in order to meet the overall programme objective of the CKR project, the GPA would explore with the ArchSD and the affected B/Ds on adopting a phased approach to allow for completing part of the WKGO for accommodating the B/Ds' displaced facilities (i.e. 56% of the WKGO office space — see Table 2 in para. 2.22) prior to the overall completion of the whole WKGO project.

While the phased construction approach was subsequently found to be physically viable, in view of the higher overall cost implication as advised by the ArchSD (Note 16), the GPA decided in August 2005 that the WKGO project should proceed in one go.

2.20 ***Changes in the planning of WKGO project.*** Between 2005 and 2011, there had been changes in the planning of the WKGO project, as follows:

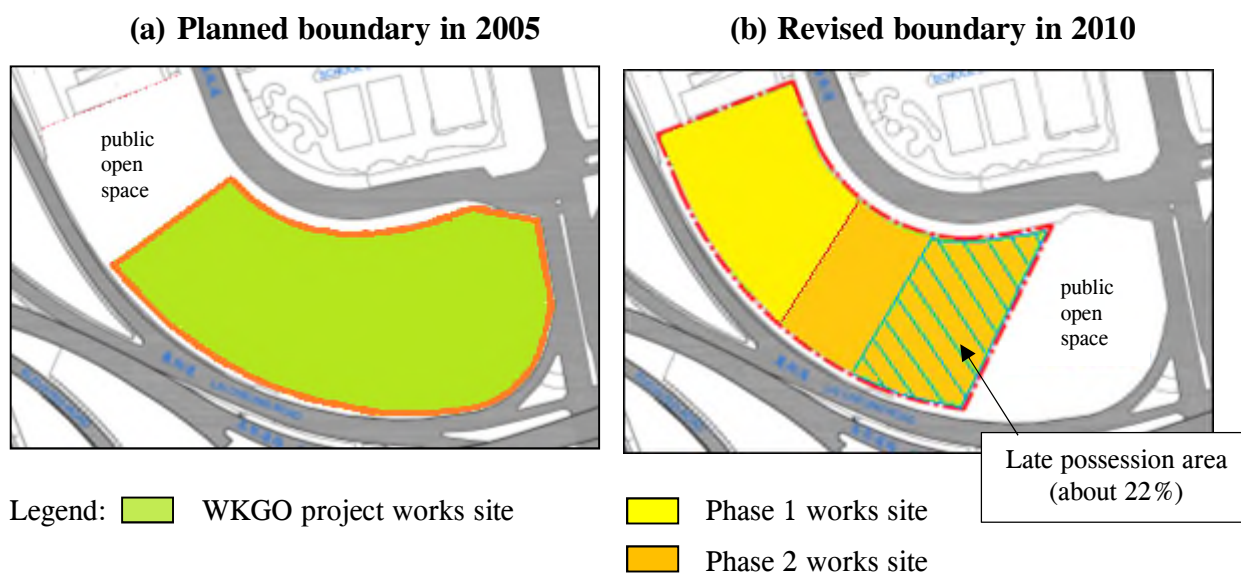
Note 15: *The proposed CKR is a dual 3-lane trunk road connecting the Yau Ma Tei Interchange in West Kowloon with the Kai Tak Interchange in East Kowloon for diverting the traffic along the major east-west corridors in Kowloon to relieve traffic congestion and cope with future traffic demand. In October 2017, the Finance Committee approved funding of \$42,363.9 million for implementing the CKR project.*

Note 16: *According to the ArchSD, as a works agent, it advised on the cost and programme implication on the phased approach, and was not in a position to decide whether the project was to proceed in one go or in phases.*

- (a) ***Suspension of the WKGO project.*** In September 2005, shortly after the earmarking of funding for the WKGO project (see para. 2.19), the HyD informed the GPA that it would commission a consultancy and the review result would be available in the fourth quarter of 2006. According to the HyD, one of the objectives of the consultancy was to review the CKR alignment options with a view to preserving the Yau Ma Tei Police Station and to retaining existing G/IC facilities as far as practicable. In December 2006, noting that the CKR consultancy study (which had not yet started at that time) would review the need for reprovisioning the four blocks of government buildings which in turn would affect the finalisation of scope of the WKGO project and the commencement of technical feasibility study, the ArchSD informed the GPA that it was not possible to proceed with the WKGO project as planned;
- (b) ***Change in site boundary.*** In July 2007, the HyD circulated a railway scheme to the GPA amongst others. In October 2007, the HyD alerted the GPA that part of the site earmarked for the WKGO would be reserved as a works site for the railway project from late 2009 to 2014-15. Since November 2007, the HyD had been exploring with the GPA and other relevant B/Ds on various options for the handing over of the concerned site in phases to mitigate its impacts on the programme of the WKGO project. In September 2009, a land allocation arrangement was agreed, under which the originally planned site boundaries for the WKGO in 2005 and an adjacent public open space were revised in 2010. After the changes, a portion (22%) of the WKGO revised site would only be available at a later stage in March 2015 at the earliest (see Figure 4 for the planned site boundary in 2005 and the revised boundary in 2010). In view of the changes, in April 2010, the ArchSD revised the technical feasibility study report which specified that the WKGO project would be split into two phases, i.e. phase 1 for the construction of one office tower (33% of the total NOFA) was scheduled for completion in May 2015 and phase 2 for the construction of another office tower (the remaining 67% of the NOFA) was scheduled for completion in November 2017; and

Figure 4

Change in site boundary for the WKGO



Source: GPA records

- (c) **Change in users.** In January 2008 and June 2010, the HyD informed the GPA that the demolition of two blocks of government buildings (i.e. the Yau Ma Tei Jockey Club Polyclinic and Kowloon Government Offices Building respectively) would no longer be required under the CKR project. As a result, part of the office space in the WKGO originally earmarked for reprovisioning these two buildings could be allocated for reprovisioning offices from the WCGOC. In August 2011, the ArchSD further revised the technical feasibility study report of the WKGO project to take into account the changes in users. In the event, the scheduled completion of phase 1 was deferred from May 2015 to November 2016 with no change for phase 2 completion (i.e. November 2017).

2.21 In February 2014, the FSTB informed the Legislative Council (LegCo) Panel on Financial Affairs that the scheduled completion dates of phase 1 and phase 2 would be late 2018 and early 2019. According to the funding paper for the construction of the WKGO submitted by the FSTB in April 2015 to the Finance Committee (FC) of LegCo:

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- (a) the construction works would be carried out in two phases as part of the site would only be available at a later stage, i.e. the late possession area (see para. 2.20(b)). Subject to the approval of the FC, construction works would commence in the second half of 2015 for completion in early 2019;

- (b) 58% of the total NOFA would be used for reprovisioning government offices accommodated in leased premises in Wan Chai, Tsim Sha Tsui, Mong Kok and Kwun Tong. The premises to be released would help increase the supply of commercial floor area in various districts and the estimated annual savings in rental expenditure would be about \$160 million (based on December 2014 price level); and

- (c) the GPA had consulted the Yau Tsim Mong District Council and various local stakeholders (including a residential estate and two nearby schools) on the project. Members of the District Council gave support in December 2013 for the project though there were some concerns over possible environmental and traffic impacts.

2.22 In June 2015, the FC approved funding of \$4,742.5 million for implementing the WKGO project. In July 2015, a design-and-build contract for the WKGO was awarded at a sum of \$4,332.8 million for completion in early 2019. As of June 2017, construction works for foundation and other design were in progress. Table 2 summarises the key changes in the planning of the WKGO project from July 2005 to April 2015.

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Table 2

Key changes in the planning of the WKGO project (July 2005 to April 2015)

	July 2005	April 2010 (change in site boundary)	August 2011 (change in users)	September 2012	February 2014 (Panel on Financial Affairs)	April 2015 (FC paper)
Estimated construction cost (\$ million)	1,557 (at September 2005 price level)	3,534 (at September 2009 price level)	4,199 (at September 2011 price level)	4,944 (at September 2012 price level)	— (Note 2)	4,742.5 (including inflation) (or 3,822 at September 2014 price level)
Scheduled completion	July 2010	Phase 1: May 2015 Phase 2: November 2017	Phase 1: November 2016 Phase 2: November 2017	Phase 1: November 2017 Phase 2: April 2018	Phase 1: late 2018 Phase 2: early 2019	By two phases with overall completion in early 2019
Planned allocation of office space (m²)						
(a) office affected by the CKR	28,070 (56%)	16,700 (33%)	4,000 (8%)	4,247 (9%)	6,060 (12%)	6,060 (12%)
(b) deleasing of leased premises	18,755 (37%)	33,300 (67%)	41,550 (83%)	36,114 (72%)	30,300 (60%)	29,290 (58%)
(c) new provision and others	3,325 (7%)	44%			3,030 (6%)	4,040 (8%)
(d) reprovisioning WCGOC	— (Note 1)		— (Note 1)	4,450 (9%)	9,639 (19%)	11,110 (22%)
Total	50,150	50,000	50,000	50,000	50,500	50,500

66%

Source: GPA records

Note 1: The relocation of the WCGOC was announced in the 2008-09 budget speech. The GPA was informed in January 2008 and June 2010 that the office space earmarked for reprovisioning two government buildings in Yau Ma Tei would not be required (see para. 2.20(c)).

Note 2: According to the panel paper, the estimated cost per unit area would be \$30,000 to \$33,000 per m² (at September 2013 price level).

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2.23 *Long time taken in implementing the WKGO project.* As shown in paragraph 2.19 and Table 2 of paragraph 2.22, the WKGO project had taken almost 12 years to progress from project inception (i.e. date of inclusion in the PWP in July 2003) to funding approval in June 2015. The time taken was much longer than 2 to 5 years of two other government-office building projects implemented during the 12-year period (see Appendix C for details). Audit examination of the project development revealed the following lessons to be learnt in the implementation of the WKGO project:

- (a) *Need to consider advancing part of the WKGO project for deleasing purpose.* The WKGO project was planned for re-provisioning government buildings affected by the CKR project and for providing new offices to facilitate de-leasing of leased government accommodation (see para. 2.18). In December 2006, noting that the CKR consultancy study would review the need for re-provisioning the government buildings, the ArchSD informed the GPA that it was not possible to proceed with the WKGO project as planned (see para. 2.20(a)). However, a significant part (44% of the planned NOFA — see Table 2 in para. 2.22) of the WKGO for providing new accommodation and facilitating de-leasing was not dependent on the CKR project and could proceed on its own given that a phased construction approach for the WKGO was considered physically viable in August 2005 (see para. 2.19). While such phased construction approach would have higher cost implication, the earlier provision of new offices for de-leasing purpose could bring about rental saving. There was no record to show that the GPA had conducted a cost-benefit analysis for implementing the WKGO project by phases before deciding to defer the whole project in 2006 pending the outcome of the CKR consultancy study. In the event, the re-provisioning requirement of the CKR project was only finalised in 2010 (3.5 years later) and the consequential change in users of the planned accommodation for re-provisioning purpose caused a further delay of over one year in the scheduled implementation date of the WKGO project (see para. 2.20(c)). Meanwhile, the estimated construction cost had also increased by 170% from \$1,557 million in July 2005 to \$4,199 million in 2011 (see Table 2 in para. 2.22). In any event, a phased approach was adopted in 2010 to address the problem of late possession of some site area for the railway project (see para. 2.20(b)); and

- (b) *Need to conduct public consultation at an early stage.* According to the Project Administration Handbook issued by the ArchSD, after completing the technical feasibility study, a project team should allow adequate time

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for public consultations in preparing the outline plan based on the approved technical feasibility study, including coordination with and supporting its client to conduct public consultations at an early stage if required, and facilitate resolving public objection in a timely manner (Note 17). The WKGO project was planned for implementation as a design-and-build project. After completion of the revised technical feasibility study report by the ArchSD (the works agent) in August 2011, the WKGO project was ready for conducting public consultation. However, it was not until July 2012 that the GPA informed the FSTB of its plan (Note 18) to conduct public consultation in March 2013. In the event, public consultation started in April 2013 and the support of the District Council was only obtained in December 2013 after further consultation was conducted to address local concern. In Audit's view, in implementing a JUB project in future, the GPA, in consultation with the ArchSD, needs to conduct public consultation at an early stage to facilitate addressing any public concern/objection in a timely manner.

Long time taken in identifying sites for reprovisioning two users of the WCGOC

2.24 Since 2008, the PlanD had made efforts in identifying suitable sites for reprovisioning the WCGOC offices and the GPA had also carried out matching exercises with the affected users for the identified sites. Audit noted that, among the 28 affected B/Ds and the Judiciary, the identification of reprovisioning sites for the DSD and the Judiciary (see Projects 8 and 9 in Table 1 in para. 2.15) had taken the longest time to finalise, i.e. in 2014 and 2016 respectively. Audit examination of the two cases revealed lessons to be learnt as shown in Cases 1 and 2.

Note 17: *It is also relevant to note that according to Technical Circular (Works) No. 4/2006 (still in force) of the then Environment, Transport and Works Bureau, public consultations for projects should be planned in advance in consultation with the clients and started as soon as possible when the project is upgraded to Category B and a preliminary design is available for the public's discussion.*

Note 18: *According to the GPA, the public consultation plan was based on the works programme as advised by the works agent in June 2012.*

Case 1

Relocation of DSD offices to a sewage pumping station site

1. In April 2008, the DSD informed the GPA that all its offices in the WCGOC could be relocated outside Wan Chai. The DSD considered that the five proposed replacement sites at Cheung Sha Wan, Kai Tak and Tseung Kwan O were acceptable. In December 2013, the GPA informed the DSD that its offices in the WCGOC would be relocated to new JUBs in Tseung Kwan O or Kai Tak.

2. In January 2014, the DSD requested the GPA to re-provision all its WCGOC offices and other offices in various locations in Kai Tak so as to oversee the flood control and sewerage projects and facilities throughout the territories. In February 2014, the GPA replied that since the DSD provided a territory-wide service, there was no operational needs for the DSD's offices to be located in Kai Tak, and proposed to relocate DSD's offices in the WCGOC to Tseung Kwan O.

3. In May 2014, the DSD informed the GPA that it would not take up the Tseung Kwan O JUB office and planned to build an SDB at one of its sewage pumping station sites in Kowloon (Note 1). In February 2015, the DEVB approved the project definition statement for the SDB proposed by the DSD and in September 2015 approved the technical feasibility study prepared by the ArchSD.

4. According to Financial Circular No. 5/2012 (Note 2), new projects are required to achieve at least 90% of the development potential of the allocated sites. According to the ArchSD, although the proposed SDB could achieve more than 90% of the development potential, further endeavours had been made to maximise the site utilisation. From late 2015 to early 2016, the DEVB, in collaboration with the DSD, the GPA, the PlanD and the ArchSD, conducted a review and decided to incorporate the SWD as a joint user (Note 3). Subject to funding approval, the project was scheduled to start in September 2019 for completion in September 2023.

Case 1 (Cont'd)

Audit comments

5. The proposed SDB in a sewage pumping station site was an innovative initiative that could meet the reprovisioning need of the DSD and maximise the utilisation of the site. It is a good example of proactive inter-B/D collaboration in making use of the residual development potential of an existing occupied site. However, such a proposal was only brought up in 2014, some six years after the GPA commenced the relocation project of the WCGOC. This incident indicates that when planning for the reprovisioning of a government-office building in future, the GPA needs to make reference to the DSD's example and request all affected users to critically review whether their accommodation requirements can be met by making use of their existing stock of accommodation, including sites with residual development potential. This is important to ensure that all options available are fully explored at an early stage with a view to meeting the affected users' accommodation needs in a cost-effective and timely manner.

Source: Audit analysis of GPA records

Note 1: According to the DSD, this innovation project aimed to maximise utilisation of the site and promote the concept of co-use of government site for different purposes. The SDB was proposed after critically considering a wide range of factors such as the planned upgrading works of the facilities, operational constraints of the site, planned residential developments in the vicinity and anticipated responses of local residents.

Note 2: In June 2017, the Circular was superseded by Financial Circular No. 4/2017 which contained a similar requirement.

Note 3: According to the DSD, the maximum NOFA that could be provided under the proposed SDB was 18,450 m² whereas the approved schedule of accommodation (in NOFA) was 14,547 m² for the DSD and 4,554 m² for the SWD. The shortfall of 651 m² had to be sorted out among the DSD, the GPA and the SWD.

Case 2

Relocation of Wan Chai Law Courts

1. In April 2008, in response to the GPA's circular memorandum (see para. 2.12), the Judiciary said that:

- (a) its preferred location for reprovisioning the Wan Chai Law Courts (Note 1) should be in a stand-alone law court building in CBDs (Sheung Wan, Central, Wan Chai or Causeway Bay) because legal practitioners and professionals were mainly located in the CBDs on Hong Kong Island; and
- (b) the total NOFA (see Note 14 to para. 2.12(a)) required should be about 20,000 m² and the estimated GFA (see Note 8 to para. 1.8(b)) should be about 56,000 m².

2. ***Proposed relocation site in Sai Ying Pun.*** In October 2008, in response to the GPA's enquiry, the Judiciary considered that the proposed ex-Western Police Married Quarters and the nearby ex-Western Magistracy Building in Sai Ying Pun were acceptable for the relocation. In December 2008, the GPA informed the Judiciary that based on an available area of 5,420 m² for the ex-Quarters site, the maximum GFA that could be constructed was about 50,000 m² which might not fully meet the Judiciary's GFA requirement of 56,000 m². The Judiciary was requested to explore the possibility of trimming down its requirement to 50,000 m². In March and May 2009, the GPA informed the Judiciary that: (a) the architects at a later design stage could assist in utilising the proposed GFA of 50,000 m² to meet the Judiciary's NOFA requirements; and (b) the GFA requirement was estimated to be about 30,753 m² based on the floor plan of the Wan Chai Law Courts (see para. 2.13(b)(ii)).

3. ***Floor height requirement.*** In May 2012, the GPA informed the Judiciary that the site area available was revised to 5,200 m² which according to the GPA's assessment could still provide a GFA of 49,000 m². At a meeting between the GPA and the Judiciary of May 2012, it was brought to light that the GPA's estimation of the GFA was based on the existing floor-to-floor height (or "floor height") of 4.5 metres (m) for the Wan Chai Law Courts whereas a 7-m floor height was required by reference to the West Kowloon Law Courts Building then under construction for accommodating building services installations, structural elements and raised floor. In June 2012, the Judiciary informed the GPA that the proposed site was no longer considered to be suitable because the site area might not be able to provide a GFA of 50,000 m². In the subsequent exchange of correspondence in July and August 2012:

Case 2 (Cont'd)

- (a) the GPA said that accommodation would be allocated to users primarily based on the existing floor areas of their offices in the WCGOC as promulgated by the FSTB in April 2012 (see para. 2.13(b)(ii)) and that the proposed relocation site was not suitable as a result of change in floor height requirement from 4.5 m to 7 m; and
- (b) the Judiciary said that prior to the meeting of May 2012, it had not been consulted on the adequacy of the existing floor height at Wan Chai Law Courts, or whether the existing floor height at Wan Chai Law Courts should be adopted as the benchmark for the new law courts. Moreover, the site coverage was 62.5% according to the Building (Planning) Regulations (Cap. 123F), whereas the GPA's plan was based on 100% site coverage.

In November 2012, on the advice of the PlanD, the GPA informed the Judiciary that there were no other suitable reprovisioning sites on Hong Kong Island which could satisfy the GFA requirement of 50,000 m².

4. From September 2012 to January 2013, the GPA consulted the ArchSD on the achievable floor area if the floor height was reduced from 7 m to 4.5 m. According to the ArchSD:

- (a) based on the designs of a few law court buildings completed/to be completed at various time periods, a higher floor height was employed for new law court buildings, e.g. 6 m for the Fanling Law Courts Building completed in 2001 and 6 m to 7 m for the West Kowloon Law Courts Building then targeted for completion in 2015. With reference to the floor height requirement under the prevailing standard of law court design, a reduced site coverage (Note 2), and assuming a relaxed building height of 88 m, the maximum achievable NOFA at the Sai Ying Pun site was about 9,400 m² (or a GFA of 25,900 m²), which could only meet part of the Judiciary's requirement (about 20,000 m² — see para. 1), and hence the proposed site was not feasible for the reprovisioning of the Wan Chai Law Courts; and
- (b) assuming a 4.5-m floor height, the achievable NOFA would range from 10,900 m² to 12,400 m². The possibility of increasing the potential (i.e. the floor area) through adopting a low floor height of 4.5 m was an unrealistic hypothetical scenario. The ArchSD would not recommend pursuing such a study, as it would yield very misleading results.

Case 2 (Cont'd)

5. **Another site search.** In July 2013, in response to the Judiciary's representations that a holistic approach in mapping out a solution that would address the long-term accommodation needs of the Judiciary was necessary since there was no room for expansion at the High Court and the District Court, the relevant B/Ds conducted another round of site search to identify suitable sites for meeting the long-term accommodation needs of the Judiciary, including the reprovisioning of the Wan Chai Law Courts. In November 2014, the Judiciary informed the Government that the Judiciary would require an NOFA of 26,000 m² for the Wan Chai Law Courts as well as the Lands Tribunal in Yau Ma Tei. In April 2015, the Government offered a CBD site in Causeway Bay which could provide an NOFA of 26,000 m² (subject to detailed assessment) for the development of a District Court Complex (including the reprovisioning of the Wan Chai Law Courts). In May 2016, the Judiciary accepted in principle to use the proposed site.

Audit comments

6. While the GPA assisted the Judiciary in identifying the ex-Quarters site in Sai Ying Pun for relocating the Wan Chai Law Courts as early as 2008, it was only in 2012 that the GPA's estimation of the achievable GFA from the site based on the existing 4.5-m floor height of the Wan Chai Law Courts was found to be different from that under the prevailing law court design standard of a 7-m floor height. The site coverage was also found to be less than the assumed 100%. In the event, the proposed Sai Ying Pun site was considered not feasible and another site search had to be conducted. In Audit's view, when assisting users in identifying reprovisioning sites for their accommodation/offices in future, the GPA needs to consult the users and the works departments at an early stage the planning assumptions/parameters used for estimating the GFA/NOFA achievable to ensure that any proposed sites can fully meet the accommodation and operational needs of the users concerned.

Source: Audit analysis of GPA records

Note 1: Only the District Court and Family Court of the Wan Chai Law Courts (see para. 2.12(a)) together with the Lands Tribunal in Yau Ma Tei were proposed to be reprovisioned to a stand-alone law court building in CBDs. The Small Claims Tribunal was proposed to be reprovisioned to another planned law court building in West Kowloon.

Note 2: In November 2008, the PlanD advised the GPA that no restriction on development intensity was imposed on G/IC zone under the OZP. In September 2012, the PlanD advised the GPA that while according to the Buildings Department's memorandum of the same month, the law court buildings were exempted from the provisions of the Building Ordinance (Cap. 123), in reservation of the subject site, a site coverage of about 80% had all along been assumed.

Audit recommendations

2.25 **Audit has *recommended* that the Secretary for Financial Services and the Treasury, in collaboration with the Government Property Administrator and the Director of Architectural Services, should closely monitor the implementation of the nine replacement building projects for the relocation of the WCGOC to ensure their timely completion.**

2.26 **Audit has also *recommended* that the Government Property Administrator should:**

- (a) **in implementing a JUB project in future:**
 - (i) **when there is new development affecting the progress of certain separable parts of the project, conduct a cost-benefit analysis to evaluate the possible options for taking forward the project such as adopting a phased implementation approach; and**
 - (ii) **in consultation with the Director of Architectural Services, conduct public consultation at an early stage to facilitate addressing any public concerns/objections in a timely manner; and**
- (b) **in planning for the reprovisioning of a government-office building in future:**
 - (i) **request all affected users to critically review whether their accommodation requirements can be met within their existing accommodation stock, including sites with residual development potential; and**
 - (ii) **consult the users and the works departments at an early stage the planning assumptions/parameters used for estimating the achievable GFA/NOFA to ensure that any proposed sites can fully meet the accommodation and operational needs of the users concerned.**

Response from the Government

2.27 The Secretary for Financial Services and the Treasury agrees with the audit recommendation in paragraph 2.25 and will continue to closely monitor the WCGOC relocation exercise in collaboration with the GPA, the ArchSD and the concerned users. He has said that the WCGOC relocation is a mega project involving 28 B/Ds and the Judiciary, and the FSTB:

- (a) has been monitoring the relocation exercise through regular reporting from the GPA with inputs from the ArchSD and other relevant users; and
- (b) keeps track of the progress of the WCGOC relocation exercise through regular housekeeping meetings with the GPA, and helps resolve interfacing issues through inter-departmental meetings with the affected users.

2.28 The Government Property Administrator generally agrees with the audit recommendations in paragraph 2.26. He has said that:

- (a) the GPA will consider conducting a cost-benefit analysis to assess the possible options if sufficient information (e.g. construction costs as advised by the works agent) is available and reasonable assumption can be made. For the WKGO project, its primary objective was to meet the reprovisioning needs of the CKR project. It was technically not viable to conduct a cost-benefit analysis before the finalisation of the de-leasing plan as it depended on the ultimate reprovisioning needs of the CKR project, which in turn hinged on the CKR alignment;
- (b) the GPA in general will follow the agreed timeframe set out in the construction programme of the technical feasibility study report to conduct public consultation. In fact, the GPA has conducted public consultation at an early planning stage for the two other JUB projects in relation to the relocation of the WCGOC, and will continue to conduct public consultation at an early stage where appropriate;
- (c) the GPA has requested the affected users of the WCGOC to conduct a comprehensive and critical review of their accommodation requirements, taking into account any long-term plan for reorganisation, downsizing and other initiatives when drawing up their reprovisioning requirements;

Provision of government-owned office accommodation

- (d) the GPA will continue to consult the users and the works departments at an early stage the planning assumptions/parameters to ensure the suitability of any proposed sites. As regards Case 2 on the relocation of Wan Chai Law Courts (see para. 2.24), the role of the GPA was to assist the Judiciary as a project proponent to identify suitable replacement site for the construction of an SDB. In this connection, the GPA:
 - (i) had at an early stage in 2008 consulted all affected users in the WCGOC relocation exercise their special accommodation requirements. The GPA had also worked closely with the works departments on the planning assumptions and parameters used for estimating the achievable GFA/NOFA of the identified sites so as to assess their suitability;
 - (ii) considered that whether the Sai Ying Pun site could meet the Judiciary's space requirement hinged on the Judiciary's floor height requirements instead of the site area for the footprint of the new law courts. In 2009, the GPA informed the Judiciary that the reprovisioning was on a one-to-one basis under the relocation study (see para. 2.12). It had made reference to the GFA/NOFA requirements provided by the Judiciary when considering the suitability of replacement sites, taking into account any special requirements known to the GPA; and
 - (iii) despite the ArchSD's assessment in early 2013 (see para. 4(a) in Case 2 of para. 2.24), sought further advice from the PlanD and the ArchSD in May 2013 on the technical suitability of the Sai Ying Pun site for reprovisioning purpose, which suggested that the relocation of Wan Chai Law Courts to the reprovisioning site was feasible subject to certain conditions, including relaxation of the building height restriction, and confirmation of space requirements and floor height requirements; and
- (e) as regards the audit recommendation in paragraph 2.25, the GPA has been working closely with project proponents and works agents to implement the nine replacement building projects and address the problems/difficulties encountered. It will continue to report the progress of project implementation to the FSTB with a view to monitoring the implementation to ensure the timely completion of the replacement buildings.

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2.29 Regarding Case 2 in paragraph 2.24 on the relocation of the Wan Chai Law Courts, the Judiciary Administrator has said that:

- (a) the 4.5 m of floor height for the Wan Chai Law Courts was adopted in the 1980s and over the years, the floor height requirement for law court buildings had been developed to about 6 m to 7 m for accommodating the building services requirements, structural elements and raised floors; and
- (b) at the time when the relocation of the Wan Chai Law Courts was discussed, the prevailing floor height required was 7 m and the previous 4.5-m floor height requirement was outdated. Hence, there had not been any changes in the floor height requirement.

PART 3: ADMINISTRATION OF LEASED GOVERNMENT OFFICES

3.1 This PART examines the GPA's administration of leased government offices, focusing on:

- (a) leasing and deleasing of office accommodation (paras. 3.2 to 3.21); and
- (b) relocating leased accommodation out of CBDs (paras. 3.22 to 3.26).

Leasing and deleasing of office accommodation

3.2 *Leasing policy.* The Government's accommodation policy is to house offices in owned buildings and reduce reliance on leasing. According to the GPA Manual, leasing office accommodation should be considered if existing government-owned accommodation is not available and the leasing is intended to meet short-term, urgent, location-tied accommodation needs or specific operational requirements. Specifically, the Manual sets out the following procedures:

- (a) *Leasing.* In selecting premises to be leased, priority should be given to suitable premises with low-rental implication such as public housing estates (Note 19). User's location preference should be justified having regard to the policy that departments should be housed as far as possible in government accommodation in less prime area away from the Central and Admiralty. For lease renewal, officers should exercise their judgement to include other pertinent issues for consideration having regard to the circumstances of each case, the objectives of the activity and the general role and function of the GPA. Other considerations should be given to factors such as justification for the continuing need for the leased premises, the proposed rental package and lease terms, the availability of other suitable premises in the market, the economics of a new lease, new fitting-out costs, and removal and unamortised fitting-out costs of the

Note 19: *Rental expenditure for leased accommodation used to be borne by the GPA's rent vote. Since the FSTB imposed a cap on the GPA's rental expenditure in September 2002, new leasing requirements have been funded by user B/Ds.*

Administration of leased government offices

existing leased premises (Note 20). According to ADD Divisional Instruction on “Procedures for search of private non-domestic accommodation and engagement of estate agents”:

- (i) upon confirmation of the accommodation requirements of B/Ds, case officers of the ADD should explore possible sourcing methods to identify suitable premises to meet B/Ds’ accommodation needs timely and cost-effectively. These methods include identifying suitable premises from existing records, the building list of government leased accommodation, newspapers and websites of property developers/owners. All site searches should be carried out in a fair and prudent manner;
 - (ii) if it is considered appropriate for sourcing properties through estate agents to meet specific accommodation requirements of B/Ds, case officers of the ADD may consider engaging estate agents to help refer potential properties available in the market; and
 - (iii) it is important that a written record of the site search be maintained in the file. Case officers of the ADD should properly document information such as contact point of the landlords or estate agents, properties offered, suitability of the offered properties and reasons for rejecting the properties; and
- (b) ***Deleasing.*** Case officers of the ADD need to take the following factors into consideration during the deleasing process:
- (i) where users surrender a part or the whole of the leased accommodation, the practicability of deleasing or reallocation of the vacant space to other users;
 - (ii) whether deleasing may result in nugatory rental payment or compensation to the landlord; and

Note 20: *According to the GPA Manual, a minimum of six years is used for assessing whether the fitting-out work should be considered amortised.*

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- (iii) priority for deleasing to be given to departmental HQs in leased premises, high value leases, where the landlord is uncooperative or unreasonable or leases due to expire in the next six months.

Selection of premises for leasing

3.3 The number and area of leased accommodation handled by the GPA from 2014 to 2016 are shown in Table 3.

Table 3

**GPA's work on leasing/deleasing office accommodation
(2014 to 2016)**

Work	2014		2015		2016	
	Number	Area (m ²)	Number	Area (m ²)	Number	Area (m ²)
Leasing of new premises	50	23,070	33	14,938	36	15,826
Renewal of leases	101	39,282	114	57,084	182	97,571
Deleasing	6	2,034	33	21,638	32	14,292

Source: GPA records

3.4 ***Audit examination of leases with high rental values.*** As stated in the GPA Manual, in selecting premises for leasing, priority should be given to suitable premises with low-rental implication (see para. 3.2(a)). Audit noted that the Rating and Valuation Department (RVD) had compiled average rents on a monthly basis for private office premises designed for commercial/business purposes with a breakdown by districts and by office grading (Note 21). Based on the GPIS records of 170 leases (Note 22) as of April 2017, Audit compared their rentals with the RVD's average rents of the relevant districts/office grading/lease periods. Audit found that:

- (a) the rents of 110 (64.7%) leases were lower than the RVD's average rents (by 1% to 34%); and
- (b) the rents of 60 (35.3%) leases were higher than the RVD's average rents. Of these 60 leases, the rents of 6 (10%) leases exceeded the RVD's average rents by more than 40%. Audit understood that the RVD's average rents were for general reference only. Audit selected 3 of the 6 leases (see Table 4) for examining the specific circumstances under which they were entered into/renewed. The findings on Leases A and B, and Lease C are shown in paragraphs 3.5 and 3.6 respectively.

Note 21: *Districts covered by the RVD included Sheung Wan, Central, Wan Chai/Causeway Bay, North Point/Quarry Bay, Tsim Sha Tsui, Yau Ma Tei/Mong Kok and Kowloon Bay/Kwun Tong. According to the RVD, average rents are analysed for general reference only and their levels at a certain period depend to a large extent on the special characteristics, including quality and location, of the premises which are leased during the period. Therefore, changes in average monthly rents between different periods should not be taken as necessarily indicating a general change in value over the period.*

Note 22: *As of April 2017, there were 629 leases in the GPIS records, of which 459 were either leases with nominal/concessionary rents, leases with buildings without office grading or located at shop level of buildings or at districts in which the RVD's average rents were not available. Therefore, Audit used the remaining 170 (629 less 459) leases for rental comparison.*

Administration of leased government offices

Table 4

Leases selected for case study
(2015)

Lease	Building	Current user B/D	Area (m ²)	Monthly rent (\$/m ²)
<i>New leases (Note 1) commencing March 2015</i>				
A	Grade A office in Kwun Tong (see Note 7 to para. 1.8(b))	Working Family and Student Financial Assistance Agency	988	486
B			974	477
<i>Lease renewed in July 2015</i>				
C	Grade B office (Note 2) in Kwun Tong	CEDD	1,099	501

Source: GPA records

Note 1: The Working Family and Student Financial Assistance Agency occupies five floors of the leased premises under five separate leases. Only the rents of two leases (Leases A and B) exceeded the RVD's average rents by more than 40% while those of the other three leases were 21% to 32% higher than the RVD's average rents.

Note 2: According to the Hong Kong Property Review published by the RVD, Grade B office building has the following features: ordinary design with good quality finishes; flexible layout; average-sized floor plates; adequate lobbies; central or free-standing air-conditioning; adequate lift services; good management and parking facilities not essential.

3.5 *Reasons for rejecting/not recommending leasing offers not documented for Leases A and B.* In March 2014, the Labour and Welfare Bureau (LWB) informed the GPA that a new office of about 4,800 m² (Note 23) for about 500 staff preferably in East Kowloon would be required in July 2014 for administering the Low-income Working Family Allowance Scheme subject to the FC's funding approval of the Scheme in the same month. With the assistance of estate agents, the GPA in April 2014 identified two potential office premises for the LWB's consideration. The LWB selected the premises with a lower rental (\$30 per square feet (ft²) per month — Note 24) in Kwun Tong (see Building A in Table 5) instead of the other at \$35 per ft² per month in Kwai Chung (see Building F in Table 5). In August 2014, noting that funding approval for the Scheme could not be obtained in July 2014, the GPA recommended another premises (see Building H in Table 5) in Tsuen Wan as a fallback option in case the premises selected by the LWB subsequently became unavailable. In February 2015, after the LWB had obtained funding approval, the GPA entered into five leases for five floors with the landlord of Building A including two floors under Leases A and B (see Note 1 to Table 4 in para. 3.4). Audit noted that, other than the two potential offices offered to the LWB, the estate agents had also identified seven office premises having GFA of over 90,000 ft² (see Note 23) of comparable/lower rent (see Buildings B to E, and G to I in Table 5) for the GPA's consideration. However, as far as Audit could ascertain, there was no documentation of the reasons for rejecting/not recommending these offers to the LWB for its consideration, contrary to the requirement as specified in the ADD Divisional Instruction (see para. 3.2(a)(iii)). Upon Audit's enquiry, the GPA in September 2017 said that the seven office premises had not been selected because of unmatched timing, not preferred location, incompatible land use and insufficient space available. In Audit's view, the GPA needs to remind ADD staff to document the reasons for rejecting/not recommending offers in the selection of premises for leasing office accommodation in accordance with the Divisional Instruction (see para. 3.2(a)(iii)).

Note 23: *The estimated area of 4,800 m² was based on internal floor area, which was equal to approximately 90,000 square feet based on the GFA.*

Note 24: *The rentals were monthly asking rents quoted by estate agents based on the GFA of the potential office premises.*

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Table 5

Potential office premises offered by estate agents
(2014)

Area	Building	Monthly asking rents based on GFA (\$/ft ²)	Availability	Remarks
Kwun Tong	A	30	Immediate	Recommended as suitable in April 2014 by the GPA
	B	30	Oct 2014	Other potential premises identified by estate agents
	C	23.5 – 32	Immediate	
	D	26 – 28	Jul 2014	
	E	22 – 23	Immediate	
Kwai Chung	F	28 – 35 (Note)	Immediate	Recommended as suitable in April 2014 by the GPA
	G	28	Jul 2014	Other potential premises identified by estate agents
Tsuen Wan	H	25	Oct 2014	Recommended by the GPA in August 2014 as a fallback option
	I	11.5 – 19	Immediate	Other potential premises identified by estate agents

Source: GPA records

Note: The GPA had informed the LWB that the monthly asking rental for Building F was \$35 per ft².

3.6 *Alternative premises with lower-rental implication not explored before exercising option for renewal under Lease C.* The office accommodation of 1,099 m² at a Grade B office building in Kwun Tong under Lease C had been used by the CEDD since July 2003. The CEDD's office was among the leased accommodation planned to be relocated to the WKGO for releasing purpose

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(see para. 2.18). However, because of the long time taken in implementing the WKGO project (see para. 2.23) and the continued need for leased accommodation, the lease was renewed for a 3-year term for four times from July 2006 to July 2015. As shown in Table 6, the monthly rent of Lease C had increased significantly since 2006 to a level comparable to the RVD's average monthly rents of Grade B offices in Tsim Sha Tsui (a CBD) and Yau Ma Tei/Mong Kok, and higher than those of Kowloon Bay/Kwun Tong (Note 25). According to the GPA Manual, for lease renewal, considerations should be given to a number of factors including rental package, new fitting-out costs and unamortised fitting-out costs of the existing leased premises (see para. 3.2(a)). However, there was no record to show that the GPA had explored other alternative premises with lower-rental implication before informing the landlord in January 2009 of its intention to renew Lease C in July 2009 at an open market rent to be agreed. According to the GPA Manual, the fitting-out cost of the CEDD's office would have been fully amortised after six years in July 2009 (see Note 20 to para. 3.2(a)). Audit also found from a valuation report prepared by the ADD staff in May 2009 for rental negotiation with the landlord for renewing Lease C that the GPA had leased in office accommodation of 4,533 m² at a nearby new Grade A office building in Kwun Tong in January 2009 for the C&SD at a monthly rent of \$157.5 per m², which was 43% lower than the then monthly rent of \$275 per m² under Lease C. However, there were no documented reasons for not considering this nearby lower-rental accommodation before renewing Lease C in July 2009 at a monthly rent of \$293 per m². The GPA needs to remind the ADD staff to explore suitable alternative premises with lower-rental implication before lease renewal, and document the reasons for the decision taken in this regard.

Note 25: *According to the GPA, it does not make reference to the RVD's average rents when assessing the reasonableness of rents of the GPA's leases as: (a) the RVD's average rents are for general reference only (see para. 3.4(b)); and (b) the premises leased by the GPA are likely to be different from other leased premises captured by the RVD. The rent of any premises leased by the GPA is affected by their special characteristics and the prevailing leasing market conditions.*

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Table 6

**Comparison of Lease C's monthly rents
with the RVD's average monthly rents of Grade B offices
(2003 to 2015)**

Month	Monthly rent under Lease C (\$/m ²)	RVD average monthly rent		
		Tsim Sha Tsui (\$/m ²)	Yau Ma Tei/ Mong Kok (\$/m ²)	Kowloon Bay/ Kwun Tong (\$/m ²)
July 2003	72 (Note 1)	186	174	No comparable rent for these periods (Note 2)
July 2006	275	265	264	
July 2009	293	283	259	
July 2012	391	399	403	223 (Note 2)
July 2015	501	471	479	291

Source: GPA and RVD records

Note 1: According to the GPA, Lease C was first entered into in mid-2003 at a time of economic downturn and very volatile rental movements. Given the large space leased, the Government was in a strong bargaining position to secure a favourable lease package with exceptionally low rents.

Note 2: The RVD's average monthly rents for Kowloon Bay/Kwun Tong were only available from February 2013 onwards.

Managing periodic accommodation needs

3.7 ***Periodic accommodation needs for conducting elections.*** Within an election cycle, elections (including the District Council ordinary election, the LegCo general election, the Election Committee subsector ordinary elections, and the Chief Executive election) are held in succession, which normally straddle four to five financial years. The REO requires temporary offices in varying periods to accommodate additional staff employed to cope with the increased workload arising from the preparation and conduct of elections and related activities. As reported in Chapter 9 of the Director of Audit's Report No. 47 on "Provision of electoral services" in October 2006, the REO had used long-term leased accommodation to meet part of such periodic demand, resulting in under-utilisation of office space during

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non-peak periods of an election cycle. In response to the audit recommendations, the REO used government-owned accommodation (the ex-Electrical and Mechanical Services Department depot and ex-Civil Aid Service HQs) for the 2010-13 election cycle. For the 2014-17 election cycle, Audit noted that the REO again used leased accommodation (in two office buildings in Kwun Tong at a total rental of \$2.6 million per month for different periods ranging from 36 months to 48 months) because the ex-Electrical and Mechanical Services Department depot and ex-Civil Aid Service HQs were not available. In June 2013, the GPA expressed concern that:

- (a) having considered the size, timing and period of the REO's requirement, there would be considerable difficulty to fully meet all the requirements in leased accommodation; and
- (b) the leasing option would incur expensive fitting-out costs repeatedly. The REO should examine whether it would construct its owned accommodation which could be used for multipurpose (e.g. storage space/indoor games hall). The REO could have full control of the premises and re-use the premises on short notice.

According to the GPA, since 2013, it had repeatedly advised the REO to approach the PlanD and the LandsD for site search for the construction of its own SDB to meet its operational needs.

3.8 According to the REO's AROA return for 2017-18 to 2020-21 submitted to the GPA in February 2017, it would have a surplus accommodation of 6,426 m² at the end of the 2014-17 election cycle (in 2017-18) which would require deleasing of office accommodation but an estimated shortfall of 18,529 m² (including 10,874 m² for temporary office and 7,655 m² for temporary storage) for the 2018-24 election cycle. In view of the need to conduct by-election in 2017-18, the REO informed the GPA in April 2017 its intention to renew the existing leases for 3,915 m² out of 6,426 m², which otherwise would expire in 2017 (Note 26).

3.9 ***Periodic accommodation need for conducting censuses.*** Similar to the REO, the C&SD's population census/by-census conducted every five years also require repeated use of short-term leased accommodation for the census staff.

Note 26: *Among the remaining area, the tenancy agreements for 862 m² expired in March 2017 and those for 1,649 m² would expire in December 2018.*

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According to the C&SD's AROA return for 2017-18 to 2020-21, it would have a surplus accommodation of 1,917 m² (by phases from December 2016 to March 2018) which would require de-leasing but an estimated shortfall of 7,000 m² in 2019 for conducting the 2021 population census.

3.10 *Need for other suitable accommodation arrangements.* Audit shared the GPA's concern on the practical difficulties and the recurring fitting-out costs for the use of short-term leased accommodation to meet the periodic accommodation needs of the REO and the C&SD. In Audit's view, there is a need for the REO and the C&SD, in consultation with the GPA, to explore the feasibility of developing a joint-user SDB in an under-utilised government site (see PART 4) for meeting the periodic accommodation requirements.

Need to improve de-leasing arrangements of leased accommodation

3.11 As mentioned in paragraphs 1.11 and 3.2, the Government's accommodation policy is to reduce reliance on leasing. With the commissioning of new government-owned premises, there is an opportunity to relocate some offices in leased accommodation to achieve rental savings. Audit selected two planned de-leasing cases (Cases 3 and 4) for examination and found room for improvement in the de-leasing arrangements as illustrated in paragraphs 3.12 to 3.16.

3.12 *Case 3: Planned de-leasing not realised.* Leased accommodation of 5,243 m² on four floors of a Grade A office building in Kowloon Bay under a single tenancy (Lease D) had been used by four sections of the SWD since December 2003. In 2006, the GPA invited the SWD to relocate the four sections to the new Trade and Industry Tower in Kai Tak (a JUB scheduled for completion in 2015). In 2008, the GPA confirmed that three sections (see Items 1 to 3 in Table 7) excluding the Central Casefile Depository (CCD) (see Item 4 in Table 7) could be relocated to the Trade and Industry Tower. The GPA continued to conduct site search for the relocation of the remaining CCD to other suitable premises. In February 2012, the SWD proposed to the GPA the relocation of the CCD to lower-cost accommodation in Kowloon and Kwai Chung in view of the continued increase of case files. The GPA considered that the SWD's re-provisioning proposal was not cost-effective because: (a) the rental for the SWD's existing premises in Kowloon Bay was on the lower side when compared with the premises in other districts; and (b) relocation from leased premises to other leased premises was not supported as it would incur double fitting-out costs. The GPA then asked the SWD to keep the CCD at the Kowloon Bay premises pending the

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allocation of the space to be vacated by the other three sections in 2015 after their relocation to the new Trade and Industry Tower, to meet its additional space requirement.

Table 7

SWD sections located in a Grade A office building of Kowloon Bay

Item	User section (before commissioning of Trade and Industry Tower in 2015)	Area (m ²)	Current user section in 2017	Area (m ²)
1	Central Para-medical Support Service Unit	1,233	Project Development Office	923
	Special Investigation Section		Target Investigation Team	310
2	Supplies Section	242	CCD	4,010
3	Special Investigation Section	337		
4	CCD	3,431		
Total		5,243		5,243

Source: GPA records

Remarks: The current lease period is from December 2015 to December 2018.

3.13 In April 2013, the SWD proposed the relocation of the CCD again to a lower value location either on Hong Kong Island, in Kowloon or the New Territories in order to meet its imminent space requirement. The GPA rejected the reprovisioning proposal again based on similar consideration as mentioned in paragraph 3.12. In the event, after the relocation of the three SWD sections in mid-2015 (see para. 3.12), the vacated space was taken up by the CCD and two other sections of the SWD. Lease D was renewed for another three years (from December 2015 to December 2018). In late 2015, the GPA proposed and the SWD accepted reprovisioning of the CCD in a new government building then planned for completion in 2023 (see Case 1 in para. 2.24).

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3.14 However, Audit noted from the GPIS records that there was leased accommodation used by other B/Ds for storage purposes at lower monthly rents, ranging from \$94 to \$147 per m² (see Table 8). In Audit's view, the use of some 76% (4,010 m² of the total area of 5,243 m²) of the Grade A office in Kowloon Bay (monthly rent of \$265 per m²) for the storage of case files by the CCD which does not have specific requirement to remain in Kowloon Bay is not good value for money. The GPA needs to meet the non-location-tied storage requirements of B/Ds in a more cost-effective manner.

Table 8

Examples of leased accommodation for storage purposes

Item	B/D	Location	Area (m ²)	Monthly rent (\$/m ²)	Current lease period
1	Government Record Service Office	Tuen Mun	6,989	94 105	10/2014 to 10/2017 9/2016 to 8/2019
2	Customs and Excise Department	Cheung Sha Wan	4,523	147	2/2016 to 2/2019

Source: Audit analysis of GPA records

3.15 **Case 4: Two leased premises left vacant.** In 2013, two sections of the LD occupying office areas of 344 m² and 159 m² in an office building in Quarry Bay under Leases E and F respectively were included in a relocation plan to a Financial Secretary Incorporated-held property in the first quarter of 2017. When considering renewal of the two leases in 2014, the LD requested the GPA to incorporate a break clause so that the actual lease period would tie in with the relocation. However, the GPA's efforts to negotiate with the landlord for a break clause in the leases were in vain. In the event, Leases E and F were renewed for a three-year fixed term (see Table 9). Audit noted that after the eventual relocation of the two sections in March 2017, the leased premises had been left vacant.

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Table 9

**Two leased premises previously occupied
by the LD left vacant since March 2017
(September 2017)**

Lease	E	F
Area	344 m ²	159 m ²
Current lease period	18 November 2014 to 17 November 2017	29 May 2015 to 28 May 2018
Monthly net rent	\$141,230	\$67,180
Monthly management fee	\$28,898	\$13,522
Rental to be paid by (see Note 19 to para. 3.2(a))	GPA	LD

Source: GPA records

3.16 Audit examined the efforts made by the GPA to arrange short-term use of the vacant premises during the remaining period of Leases E and F and noted the following:

- (a) **Lease E.** Upon confirmation of the removal schedule in October 2016, the GPA did not issue a memo to invite B/Ds to bid for the vacant office. According to the GPA, action was taken to negotiate with the landlord for an earlier termination of lease. In January 2017, the GPA made a request for an early termination of the tenancy in March 2017 but was turned down by the landlord as there was no break clause under Lease E. After further negotiation, the landlord agreed in April 2017 to accept a lump sum payment of \$560,000 in lieu of reinstatement to be undertaken by the Government (estimated to cost \$1.4 million) and to take over the premises in October 2017. In May 2017, the GPA invited bids from B/Ds for using the vacant office but no B/Ds showed interest because of the short period of use (from May to October 2017) at such short notice. In the event, the leased area of 344 m² had been left vacant since April 2017 with nugatory expenditure in terms of rental and management fee amounting to \$170,000 per month; and

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- (b) **Lease F.** In October 2016, the LD informed the GPA that the office under Lease F would be used by another section up to the end of February 2018 (i.e. three months before expiry of the tenancy for reinstatement of the premises) and no circulation to B/Ds was required. However, Audit site inspections on 18 and 30 August 2017 revealed that the office was still left vacant. The nugatory expenditure in terms of rental and management fee from April to August 2017 amounted to \$400,000.

According to the GPA Manual, case officers should consider whether de-leasing may result in nugatory rental payment or compensation to the landlord (see para. 3.2(b)(ii)). In Audit's view, the GPA should improve its planning of relocation of offices from leased accommodation (e.g. by identifying potential users at an early stage to take up vacated leased premises for any remaining lease period). To facilitate early termination of a lease to tie in with any relocation plan in future, the GPA needs to negotiate with the landlord on incorporating a break clause in the lease, and failing which, critically consider whether it is still appropriate to enter into/renew such lease or whether there is a need to look for better alternatives. For Lease F which will expire in May 2018, the GPA needs to urge the LD to put the vacant office into gainful use as soon as possible or release the office to meet any short-term need of other B/Ds.

Audit recommendations

3.17 Audit has recommended that the Government Property Administrator should:

- (a) **remind ADD staff to:**
- (i) **document the reasons for rejecting/not recommending offers in the selection of premises for leasing office accommodation in accordance with the Divisional Instruction; and**
 - (ii) **explore suitable alternative premises with lower-rental implication before exercising option for lease renewal, and document the reasons for the decision taken in this regard;**
- (b) **meet the non-location-tied storage requirements of B/Ds (including the CCD) in a more cost-effective manner;**

- (c) **improve the planning for the relocation of offices from leased accommodation by:**
 - (i) **identifying potential users (e.g. by circulation to B/Ds) at an early stage to take up the vacated premises for any remaining lease period; and**
 - (ii) **negotiating with the landlord on incorporating a break clause in the lease, and failing which, critically considering whether it is still appropriate to enter into/renew such lease or whether there is a need to look for better alternatives; and**
- (d) **urge the Commissioner for Labour to put the vacant office under Lease F (see para. 3.16(b)) into gainful use as soon as possible or release the office to meet any short-term need of other B/Ds.**

3.18 **Audit has also *recommended* that the Chief Electoral Officer and the Commissioner for Census and Statistics should, in consultation with the Government Property Administrator, explore the feasibility of developing a joint-user SDB to meet their periodic accommodation requirements.**

Response from the Government

3.19 The Government Property Administrator generally agrees with the audit recommendations. He has said that:

- (a) before committing to lease or renew a lease for any particular premises, the GPA assesses the reasonableness of the offered rent of all cases by conducting a full rental valuation to take account of the special characteristics of the accommodation concerned, such as the location, building quality, size, accessibility, environmental characteristics, etc. These valuations have gone through a due process and are reviewed by the GPA's professional staff to ensure that they are properly carried out;
- (b) while the GPA accords priority to suitable premises with lower-rental implication when leasing new premises, exploring suitable premises with lower-rental implication is only one of the factors to be considered when

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conducting a lease renewal. Whether a lease renewal warrants exploration of suitable alternative premises with lower-rental implication would depend on the circumstances of each case, e.g. the proposed rental package, availability of suitable alternative premises, economics of a new lease, etc. The GPA will remind staff to document the considerations before exercising option for a lease renewal and will consider how to implement the audit recommendation of exploring suitable alternative premises with lower-rental implication before exercising option for lease renewal (see para. 3.17(a)(ii)), having regard to a review of operational efficiency and work priorities;

- (c) regarding the audit recommendation in paragraph 3.17(c)(ii), the GPA has strived to secure a break clause in Lease E but the incorporation of such a clause is driven by the market and not entirely at the discretion of the GPA. The GPA will continue to exercise its professional judgment having considered all relevant factors to assess if it is worthwhile to enter into a lease without a break clause;
- (d) regarding the audit recommendation in paragraph 3.17(d), in October 2017, the GPA requested the LD to timely put the vacant office under Lease F into gainful use; and
- (e) regarding the audit recommendation in paragraph 3.18, the GPA will provide assistance to the REO and the C&SD in exploring the feasibility of developing a joint-user SDB.

3.20 The Chief Electoral Officer and the Commissioner for Census and Statistics agree with the audit recommendation in paragraph 3.18. The Chief Electoral Officer has said that the REO will explore with the GPA the feasibility of developing a joint-user SDB for meeting its periodic accommodation requirements having regard to its specific operational needs, including convenience to the public for voter registration and election-related activities, and suitable location for the processing, storage and delivery of electoral materials.

3.21 In the joint reply with the LD, the Secretary for Labour and Welfare has said that:

- (a) the vacated premises under Lease F in paragraph 3.16(b) were designated for use by the Task Force Team and the Claims Support Services Unit of the Employees' Compensation Division of the LD up to the end of February 2018. In the past months, they were yet to move to the vacant premises under Lease F in Quarry Bay because:
 - (i) it would be operationally inconvenient for the Task Force Team to provide secretariat support for meetings of the Task Force and its working groups held in the LD departmental HQs at Harbour Building, Central; and
 - (ii) the Claims Support Services Unit had to provide services to field offices in various locations (i.e. Southorn Centre, Cheung Sha Wan Government Offices, Tsuen Wan Government Offices and Sha Tin Government Offices); and
- (b) notwithstanding the above, the LD had worked out a plan to move the Team/Unit to the vacant premises under Lease F and was taking prompt action to install communication equipment thereat.

Relocating leased accommodation out of Central Business Districts

3.22 *Leased premises in CBDs.* As mentioned in paragraph 1.8(a), it is the Government's policy to decentralise general office space (i.e. those without specific location requirements) out of high-value areas located in the CBDs of Hong Kong Island and Kowloon, and to move the offices to lower-value areas which are well served by public transport. According to the GPA, leasing of office accommodation in the CBDs was very costly, in particular in core areas such as Central and Admiralty. Table 10 shows the areas of leased government offices in CBDs as of April 2017.

Table 10

**Areas of leased government offices in CBDs
(April 2017)**

CBD	Area of leased offices (m²)
Sheung Wan	2,545
Central	228
Admiralty	1,368 (Note)
Wan Chai	17,667
Causeway Bay	337
Tsim Sha Tsui	4,341
Tsim Sha Tsui East	2,888
Total	29,374

Source: GPA records

Note: As of August 2017, the leased area in Admiralty decreased to 263 m² after deleasing an office of 1,105 m².

3.23 Over the years, the GPA had made efforts to relocate leased government offices out of the CBDs, taking into account the justifications for retaining leased offices in CBDs put forth by B/Ds. According to the AROA returns submitted by B/Ds, the justifications for retaining leased offices in CBDs included:

- (a) location-bound to provide district or community services;
- (b) proximity to the B/Ds' HQs or related sections; and
- (c) other operational reasons.

In high-rental CBDs such as Central and Admiralty, the area of office premises leased by the Government had been reduced from 11,450 m² in 2006 to 1,596 (228+1,368) m² in April 2017 (see Table 10 in para. 3.22). As it is the Government's policy to decentralise general office space out of CBDs and to move the offices to lower rental areas, the GPA should continue its efforts to relocate the leased accommodation out of CBDs.

Need to continue assisting the SWD in relocating offices out of CBDs

3.24 As shown in Table 10 in paragraph 3.22, as of April 2017, among the CBDs, most leased government premises were located in Wan Chai. Audit noted that in 2012, the SWD had indicated its willingness to move its offices (including three sections occupying 1,581 m² in leased accommodation and its HQs occupying 6,878 m² in a Financial Secretary Incorporated-held property) out of Wan Chai but there was a need to co-locate one of the three sections (occupying 1,031 m²) with the HQs. Apart from advising the SWD to liaise with the PlanD for reserving a site for the planning of an SDB to meet its long-term accommodation needs (including releasing from CBDs), the GPA advised the SWD in November 2016 and March 2017 respectively to consider reprovisioning of its leased offices from Wan Chai to two planned facilities, one in Hung Hom and the other in Shum Shui Po. In September 2017, the SWD informed the GPA that it was considering including two of the three leased offices (occupying 550 m²) in Wan Chai in another planned project located outside CBDs. In line with the Government policy to relocate offices out of CBDs, the GPA needs to continue assisting the SWD in identifying suitable accommodation for meeting its relocation requirements.

Audit recommendation

3.25 **Audit has recommended that the Government Property Administrator should continue to assist the SWD in identifying suitable accommodation for meeting its relocation requirements out of Wan Chai.**

Response from the Government

3.26 The Government Property Administrator agrees with the audit recommendation.

PART 4: UTILISATION OF GOVERNMENT SITES

4.1 This PART examines the Government's efforts in improving the utilisation of government sites, focusing on:

- (a) identification of under-utilised government sites for optimal development (paras. 4.2 to 4.21); and
- (b) utilisation of vacant or under-utilised specialist and departmental accommodation (paras. 4.22 to 4.29).

Identification of under-utilised government sites for optimal development

4.2 Land is a valuable asset. The Government is facing competing demands for land for housing and other purposes. According to the Government's land policy, government sites must be developed to the fullest extent possible or put to the best use. The GPA is responsible for overseeing the government accommodation usage with a view to optimising the utilisation of government sites and surplus properties with potential for alternative government uses or commercialisation. In the 2004 audit review, Audit recommended that the Secretary for the Financial Services and the Treasury should ask the PSG to take stock of what needed to be done on the under-utilised government sites and review its strategy and set targets for optimising the utilisation of government sites. In response, the PSG reviewed its strategy for ensuring the optimal utilisation of government sites and held regular meetings to enhance the utilisation of government sites. In November 2010, the Government refined its strategy by adopting a targeted approach to identify government sites that were under-utilised, involving the GPA, the PlanD and the PSG which were tasked with different roles. According to a memorandum issued by the FSTB in November 2010:

- (a) the PlanD and the GPA would, on an annual basis, jointly identify for the PSG's consideration a number of priority sites for release having regard to, among others, the alternative use and redevelopment need/potential of the government sites, the extent of their under-utilisation and the condition of existing facilities;

- (b) subject to the PSG's endorsement of the priority sites identified in (a), B/Ds occupying the identified sites would be tasked to lead and oversee the planning and delivery of reprovisioning projects, with participation from the PlanD and the GPA as appropriate. The PlanD would identify alternative sites for reprovisioning of facilities. The GPA would advise on site-utilisation matters and identify partners to jointly develop the site or alternative premises for reprovisioning; and
- (c) the lead B/Ds would be requested to provide the PSG with progress reports on the reprovisioning exercises. The PSG would maintain an oversight of the progress and provide a steer on unresolved issues. The PSG would also consider and prioritise the reprovisioning projects.

Site-utilisation reviews

4.3 Since 2013, the SUD has selected 85 sites (17 by each of its 5 teams responsible for different areas) each year for conducting site-utilisation reviews to identify under-utilised government sites for redevelopment, alternative uses or disposal options with a view to optimising their utilisation. For each site, the SUD examines its existing uses, redevelopment potential, disposal options and reprovisioning requirements. According to the GPA Manual, the following factors will be considered:

- (a) sites with low utilisation ratio (Note 27);
- (b) sites located in valuable urban area;
- (c) sites with old or obsolete structures;
- (d) an occupier who is willing or able to be relocated;

Note 27: *The actual utilisation ratios of existing sites as against those recorded in GPIS will be known when there is a detailed proposal for redevelopment (see Note to Table 11 in para. 4.8).*

Utilisation of government sites

- (e) the capability to be rezoned and sold or to accommodate a higher development capacity for G/IC use; and
- (f) demand for the site.

On a cross-B/D level, the PSG serves as a forum to deal with utilisation of government sites.

4.4 After identification of potential sites, the GPA will refer them to the PlanD for planning assessment which may include advice on possible alternative long-term uses and redevelopment need/potential of the government sites. The PlanD will conduct assessment for each site on the land use planning and development proposal based on parameters such as plot ratios and building height control (i.e. planning assessment). Upon receipt of the PlanD's comments, the GPA will review redevelopment/reprovisioning proposals for shortlisted sites and submit them to the PSG for endorsement. The PSG will monitor the progress and provide a steer on unresolved issues.

4.5 The GPA maintains records of government sites in the GPIS (see para. 1.13), including information on site areas and utilisation ratios. According to the GPA, of the 3,794 sites in the GPIS, 1,793 sites were excluded from the site-utilisation reviews (Note 28). The status of the remaining 2,001 sites as of May 2017 was as follows:

- (a) 25 were under monitoring by the PSG;
- (b) 322 had been reviewed by the GPA (with the PlanD's assistance) from 2012 to 2016; and
- (c) 1,654 had yet to be reviewed.

Note 28: *These included: (a) 904 reserved sites (e.g. vacant school premises sites) for which the DEVB issued a circular in 2016 requesting the B/Ds concerned to periodically review and confirm their need for retaining these sites; (b) 508 sites classified as low-priority sites due to reprovisioning difficulties; and (c) 381 sites with an area less than 500 m² each and limited development potential.*

Identification of under-utilised government sites from 2011 to 2015

4.6 ***Six priority sites identified in 2011.*** Based on the GPA's utilisation review of 109 sites completed in 2010 and the PlanD's planning assessment, the GPA and the PlanD jointly identified six priority sites which were subsequently endorsed by the PSG for redevelopment. These six sites (3 G/IC sites and 3 departmental-quarters sites — see Items 1 to 6 in Table 11 of para. 4.8) were identified on the basis of the site utilisation information in the GPA's progress report submitted to the PSG in August 2010 and the PlanD's latest review of existing G/IC sites in July 2010, taking into account the need for according a higher priority to:

- (a) under-utilised sites that had development potential for residential use as there was an imminent need for housing sites;
- (b) under-utilised sites that were located in close proximity, thus possessing greater potential for consolidation in reprovisioning and releasing some existing sites for alternative suitable uses; and
- (c) sites not requiring reprovisioning or with more flexible reprovisioning requirements.

4.7 ***12 priority sites identified from 2012 to 2015.*** In the site-utilisation reviews conducted from 2012 to 2015, the SUD further examined 356 sites (Note 29) and referred 350 sites to the PlanD for planning assessment (see para. 4.4). Based on the planning assessment results of the 267 sites (Note 30), the GPA drew up redevelopment proposals for 12 sites for the PSG's consideration, with 8 redevelopment proposals subsequently endorsed by the PSG from 2014 to 2017 (see Table 11 in para. 4.8).

Note 29: *From 2012 to 2016, the GPA completed reviews of 441 sites (356 from 2012 to 2015 (see para. 4.7) + 85 in 2016 (see para. 4.11)), including 119 sites which were subsequently classified as low-priority sites (see Note 28 to para. 4.5) and excluded from the 322 reviewed cases referred to in paragraph 4.5(b)).*

Note 30: *The PlanD had not carried out planning assessment for 83 of the 350 sites mainly because they had been identified for alternative uses, covered by other planning studies or monitored by the PSG.*

Progress of redevelopment of under-utilised sites monitored by the PSG

4.8 ***Progress of redevelopment of 14 under-utilised sites endorsed by the PSG.*** Of the 18 under-utilised government sites identified in the site-utilisation reviews from 2011 to 2015 (see paras. 4.6 and 4.7), 14 were endorsed for redevelopment by the PSG. Audit examined the redevelopment progress of these 14 sites (see Table 11) and noted that as of June 2017:

- (a) 1 site had been released for redevelopment (see Item 6 in Table 11);
- (b) 11 sites were under planning; and
- (c) 2 sites were accorded a low priority for redevelopment (see Items 4 and 5 in Table 11).

Utilisation of government sites

Table 11

**Progress of redevelopment of 14 under-utilised sites
endorsed by the PSG
(June 2017)**

Item	Site	Site area (m ²)	Utilisation ratio (Note)	Date of endorsement by PSG	Progress as of June 2017
6 sites identified in 2011					
1	Lui Kee Education Services Centre, Wan Chai	1,320	40%	January 2011	The site was zoned for residential use on the draft Wan Chai Outline Zoning Plan (OZP). The implementation of the proposed residential use was pending the resolution of three outstanding judicial reviews on the draft Wan Chai OZP. The Education Bureau and the GPA would continue to arrange temporary uses of the existing building.
2	Lady Trench Training Centre, Wan Chai	1,330	21%	January 2011	The ArchSD was preparing a revised proposal which would further optimise the site utilisation, with the support of relevant technical assessments for the reprovisioning of the Wan Chai Polyclinic (Item 3). The PlanD would process the planning application for the proposal.
3	Wan Chai Polyclinic, Wan Chai	1,248	42%	January 2011	The site was zoned for residential use on the draft Wan Chai OZP. The implementation of the proposed residential use was pending the reprovisioning of facilities to nearby site (see Item 2) and the resolution of three outstanding judicial reviews on the draft Wan Chai OZP.
4	Ho Man Tin Hill Road Government Quarters, Kowloon City	6,354	37%	January 2011	The site was subsequently accorded a low priority for redevelopment.

Utilisation of government sites

Table 11 (Cont'd)

Item	Site	Site area (m ²)	Utilisation ratio (Note)	Date of endorsement by PSG	Progress as of June 2017
5	Ha Hang Government Staff Quarters, Tai Po	1,885	78.26%	January 2011	The site was subsequently accorded a low priority for redevelopment.
6	650 Cheung Sha Wan Road, Cheung Sha Wan	1,500	65%	January 2011	The site was sold in April 2014.
8 sites identified from 2012 to 2015					
7	Shek Wu Hui Post Office, Sheung Shui	838	10.1%	April 2014	With the pertinent Post Office identified by the GPA for relocation, the Hongkong Post requested the Housing Authority to consider incorporating a Post Office into the proposed public housing developments in Sheung Shui. Under the on-going planning and engineering study for rezoning of land for the public housing developments, the Housing Authority was exploring the feasibility of incorporating the Post Office for technical studies and planning brief. The study was targeted for completion in early 2018.
8	Ex-Harbour Hydraulics Laboratory, Tuen Mun (Case 5)	6,860	7.29%	August 2015	An alternative site was being identified for storing the museum exhibits of the LCSD and for reprovisioning the museum workshops.
9	Tuen Mun Clinic, Tuen Mun	4,400	12.11%	August 2015	B/Ds concerned were exploring the redevelopment of the Tuen Mun Clinic Site. Initial assessment on proposed facilities to be accommodated was being coordinated by the GPA.

Utilisation of government sites

Table 11 (Cont'd)

Item	Site	Site area (m ²)	Utilisation ratio (Note)	Date of endorsement by PSG	Progress as of June 2017
10	HyD's Depot and Training Centre Site, Hung Hom	2,054	34.15%	July 2016	The accommodation requirements from B/Ds' office use were being discussed by the GPA and the B/Ds concerned.
11	Tai Po Government Offices, Tai Po	6,484	25.45%	December 2016	Since the facilities in Wong Siu Ching Clinic (Item 12) would not be relocated to the Tai Po Government Offices, there was no imminent need to put forward a comprehensive redevelopment proposal.
12	Wong Siu Ching Clinic, Tai Po	2,599	24.11%	December 2016	The GPA would monitor the progress of reprovisioning the clinical facilities at the site.
13	Madam Yung Fung Shee Health Centre, Yuen Long	2,576	21.58%	July 2017	The GPA would follow up with the PlanD and the ArchSD for detailed assessment on the redevelopment proposal.
14	Yuen Long District Office Building and Clinic, Yuen Long	10,210	8.06%	July 2017	

Source: GPA records

Note: Utilisation ratio = $\frac{\text{Existing GFA}}{\text{Maximum GFA allowed to be built}^} \times 100\%$*

** According to the GPA, maximum GFA was based on statutory planning restrictions or the PlanD's advice, or if such information was not available, an estimation with reference to the development density of adjacent private land.*

4.9 **Audit examination.** Among the 11 sites under planning, Audit selected the ex-Harbour Hydraulics Laboratory (see Item 8 in Table 11 of para. 4.8) with the lowest site utilisation rate for case study (see Case 5).

Case 5

Ex-Harbour Hydraulics Laboratory site in Tuen Mun

1. The ex-Harbour Hydraulics Laboratory located at the west of Tuen Mun near Pillar Point occupies a site area of 6,860 m². The laboratory itself is a single-storey building with a floor area of about 2,500 m² (see Photograph 1). In 2001, the then Civil Engineering Department (now the CEDD) ceased operation of the laboratory and returned the building to the GPA. In March 2003, the GPA allocated the vacated building to the LCSD for storage of museum collections. Part of the site was also used as a workshop and storage for the Hong Kong Science Museum and the Space Museum.

Photograph 1

Ex-Harbour Hydraulics Laboratory used by the LCSD for storage



Source: Photograph taken by Audit staff on 25 August 2017

2. In the 2014 site-utilisation review, the site was identified by the GPA as a priority site for redevelopment. In August 2015, the PSG endorsed the GPA's proposal to develop the site as a government storage centre so as to maximise the site utilisation (Note 1). In December 2015, the GPA reported to the PSG that there was scope to enhance the site utilisation through a joint development of the subject site and an adjacent site, namely the Tuen Mun Government Depot, which was used mainly by the Electrical and Mechanical Services Department for vehicle maintenance and other departments for storage purposes.

Case 5 (Cont'd)

3. In September and December 2016, the GPA informed the LCSD that:

- (a) the redevelopment proposal could offer a total floor area of about 18,300 m². Taking into account the users' space requirements of 14,900 m² (Note 2), there would be a surplus space of about 3,400 m² available for further allocation; and
- (b) the LCSD as the "owner" department of the ex-Harbour Hydraulics Laboratory had the primary responsibility to ensure the optimal utilisation of the site. The LCSD should take up the role of a project proponent.

4. In March 2017, the LCSD informed the GPA that it had reservations on assuming the project proponent role for the redevelopment. At its meeting of April 2017, the PSG noted that the proposed redevelopment of the site would hinge on the LCSD's reprovisioning plan of the museum collections (see Note 1). The PSG then requested the GPA to explore an alternative reprovisioning site in the interim. As of June 2017, the GPA was exploring the possibility of reprovisioning the LCSD's museum collections to the Siu Ho Wan Government Depot.

Audit comments

5. As of September 2017, two years after the endorsement of the redevelopment proposal by the PSG in 2015, a project proponent had not yet been determined. In this connection, Audit noted a similar problem in identifying a project proponent for another PSG-endorsed redevelopment project (see Item 10 in Table 11 of para. 4.8). According to the Accommodation Regulations, for multi-user SDBs: (a) the major user department should perform the role of the project proponent; (b) where there is no major user department, all user departments should agree on the designation of a lead department as the project proponent; and (c) if no consensus can be reached, they should escalate the issue to the policy bureaux concerned for a decision. In accordance with the circular memorandum issued by the FSTB in November 2010, the GPA should consider seeking the PSG's steer on project proponent disputes at an appropriate juncture (see para. 4.2(c)), and invite the user departments to seek their policy bureaux'

Case 5 (Cont'd)

decisions having regard to the PSG's views if the issue remains unresolved after the PSG's intervention. In addition, the GPA needs to expedite action in assisting the LCSD in identifying a reprovisioning site for the museum collections.

Source: Audit analysis of GPA records

Note 1: According to the PSG paper of August 2015, the LCSD had no objection to the redevelopment proposal provided that: (a) the museum collections could be relocated to the planned Heritage Conservation and Resource Centre; and (b) alternative accommodation could be provided for reprovisioning the workshop and storage for the Science Museum and the Space Museum. Based on the GPA's assessment, the workshop and storage of the two museums could be reprovisioned in-situ through phased redevelopment.

Note 2: According to the LCSD, it would take up 5,400 m² (36%) of the 14,900 m². The remaining 9,500 m² (64%) would be taken up by other government departments.

4.10 **Other referral sites under the monitoring of the PSG.** Other than the sites identified by the GPA's site-utilisation reviews, the Committee on Planning and Land Development (CPLD — Note 31) and PSG members may also refer potential sites to the PSG for consideration. As of June 2017, there were 11 such cases under the monitoring of the PSG (see Appendix D). Among these 11 cases, Audit has reviewed one case (Case 6) relating to a godown acquired by the Government in early 1990s which had been left vacant since 2008.

Note 31: *The CPLD is chaired by the Secretary for Development and comprises representatives from the relevant B/Ds as members. One of its functions is to consider and review policies on production, acquisition, use and disposal of land.*

Case 6

A government-owned godown at No. 5-7 Yip Shing Street, Kwai Chung

1. The subject godown is a four-storey building with a floor area of about 4,562 m² (see Photograph 2). The godown occupying a site area of about 1,505 m² was previously privately-owned. It is at present unallocated government land mainly falling within an area shown as “Road” on the draft Kwai Chung OZP.

Photograph 2

Vacant godown in Kwai Chung



Source: Photograph taken by Audit staff on 25 August 2017

2. **Acquisition of the godown site.** According to the recommendation of a transport study for Tsuen Wan completed in 1983, the preferred option of a proposed Kwai Chung Circumferential Road (road project) would require resumption of the godown site. In 1987, the godown owner raised objection to the routing of the Kwai Chung Circumferential Road and indicated that he planned to redevelop the site. The then Territory Development Department (TDD —Note 1) informed the LandsD in 1988 that although the implementation programme of the proposed road project had yet to be confirmed, it shared the LandsD’s view that acquiring the godown site before it was redeveloped to a higher density development was the most economical option. In July 1989, the

Case 6 (Cont'd)

proposed Kwai Chung Circumferential Road was incorporated in the pertinent OZP forming a statutory basis for preservation of the road route and for continued negotiation with the godown owner. In 1990, the godown owner surrendered the godown site together with a premium payment assessed at full market value of \$5 million in exchange for the grant of another site in Kwai Chung of about 1,875 m².

3. In March 1991 the Government took possession of the godown site. The godown site was subsequently handed over to the GPA for management. In 1994, in response to the GPA's enquiry, the TDD said that the project was scheduled to commence in 1998-99 for completion in 2001-02. In March 1995, the TDD informed the GPA that there was no definite programme for the road project and suggested that the TD comment on the potential need of the project. In April 1995, the TD informed the GPA that there was no fixed programme for the road project in the next five years. From 1999 to 2002, the TDD and the TD discussed the need for the road project (Note 2).

4. *Interim use.* From 1991 to 2007, the GPA leased out the godown in the market for industrial use or use as a non-dangerous goods logistics centre. Thereafter, the building was too dilapidated for short-term uses. Over the years, various B/Ds had expressed interest in using the godown as storage, data centre and file repository. However, they all withdrew their proposals after considering the costs involved, the requirements for conducting a traffic study, the need for rezoning the site and the uncertainty of occupation period.

5. In April 2012, in response to the GPA's enquiry for using the site as a new data centre, the TD advised that although there would be no need for the road project, the project proponent of the new data centre should carry out studies and arrange the necessary amendment to the relevant OZP (see para. 1). In November 2012, the GPA informed the PSG that the site was substantially under-utilised and should the site be rezoned to "Industrial" use, the development potential (the maximum plot ratio could be revised from 3 to 9.5) would increase. The PSG then requested the TD to carry out a broad assessment which confirmed that there was no immediate need for the road project. In October 2014, the TD confirmed to the GPA again that there was no need for the road project up to 2026 and the CEDD (see Note 1) said that there was no active project at that location. In May 2017, the ArchSD obtained funding for demolishing the godown and the demolition works were planned to commence before November 2017.

Case 6 (Cont'd)

Audit comments

6. Audit considers it unsatisfactory that some 26 years after acquiring the godown in 1990, no decision had been taken on whether the proposed road project would be implemented. While the GPA had put the godown into short-term uses from 1991 to 2007, it had been left vacant for some 10 years up to August 2017. In Audit's view, the Transport and Housing Bureau needs to task the TD to review whether there is still a need from the transport planning perspective to implement the road project and if not, release the site for other uses as soon as possible. To prevent recurrence of similar problem, the CEDD, in consultation with the DEVB, also needs to consider issuing guidelines reminding project offices to acquire sites/properties for their projects after confirming the project implementation programmes. Where there are exceptional circumstances warranting the acquisition of a site/property before there is a firm project implementation programme, the project offices should keep the project under regular review to ensure the best use of the acquired site/property.

Source: Audit analysis of GPA records

Note 1: In July 2004, the former Civil Engineering Department and the former TDD merged into the CEDD.

Note 2: In July 1999, the TDD informed the TD that if the road project should remain indefinite, it should be deleted from the OZP. In 2000, the TD informed the TDD that in view of the high project cost and the potential environmental impact of a long elevated road from Kwai Chung Road to Castle Peak Road, the TD was doubtful of its chance of getting policy/funding support even for conducting a feasibility study and decided to shelve the project for the time being. In 2002, the TD said that there was no implementation programme for the road project.

Shortlisted sites in the 2016 site-utilisation reviews

4.11 Same as previous years, the SUD selected 85 sites for studies in the 2016 site-utilisation reviews. In July 2016, the GPA referred 28 sites to the PlanD for planning assessment with a view to recommending priority sites for the PSG's consideration by October 2016. After reviewing the planning assessment results of all the 28 sites provided by the PlanD in September 2016, the GPA shortlisted 15 sites for examination (see Table 12).

Utilisation of government sites

Table 12

15 shortlisted sites in 2016 site-utilisation reviews

Item	Site	Site area (m ²)	Utilisation ratio per GPIS	Scope for increasing building height/intensity as assessed by PlanD
1	Public Open Carpark and Bus Terminus at Fung Nam Road, North District	7,251	0%	Yes (minor increase)
2	Kai Tak Airport Sewage Pumping Station and Open Carparks, Wang Kwong Road (South Portion)	6,670	0%	Yes
3	DSD Sham Shui Po Nos.1 and 2 Sewage Screening Plant, South West Kowloon Reclamation Area	5,031	97.85%	No
4	Former reserved G/IC site for Parking Area, Tai Yip Street, Kwun Tong	4,901	0%	N/A (Note)
5	Tsz Wan Shan Yuk Wah Street Bus Terminus and Open Carpark	3,355	0% (Bus Terminus) 0% (Open Carpark)	Yes (minor increase)
6	Ap Lei Chau Sewage Screening Plant, Lee Nam Road	2,561	100%	No
7	Wing Shun Street HyD Maintenance Depot, Kwai Chung	2,238	61%	Yes (minor increase)
8	Car Park (Open) at Man Tung Road, Lantau Island	2,079	100%	No
9	HyD Depot and ArchSD's Works Area, Heung Yip Road	2,044	0%	No
10	Kai Tak Airport Sewage Pumping Station and Open Carparks, Wang Kwong Road (Middle Portion)	913	100%	No
11	Kwai Fong Community Hall, Lai Fong Street	896	27.95%	Yes
12	DSD Wah Fu Sewage Screening Plant, Waterfall Bay Road	875	100%	No

Table 12 (Cont'd)

Item	Site	Site area (m ²)	Utilisation ratio per GPIS	Scope for increasing building height/intensity as assessed by PlanD
13	Reserved Waterworks Depot, Cheung Tung Road, Tung Chung	654	0%	Yes (minor increase)
14	Kai Tak Airport Sewage Pumping Station and Open Carparks, Wang Kwong Road (North Portion)	573	0%	Yes
15	DSD Mui Wo Sewage Pumping Station, Ngan Kwong Wan Road	556	100%	No

Source: GPA records

Note: Site committed for alternative use and taken out from planning assessment.

4.12 ***Need to document the justifications for site selection.*** According to the GPA, the objective of the site-utilisation reviews was to release G/IC sites for optimum development. In September 2017, in response to Audit's enquiry on the status of the 15 shortlisted sites (para. 4.11), the GPA said that 4 sites (Items 1, 3, 7 and 10 in Table 12 of para. 4.11) had been selected for further action. However, there were no documented justifications for selecting the 4 sites. Audit noted that the 4 sites had included 2 sites with a utilisation ratio exceeding 90% each and assessed by the PlanD as not having scope for increasing development intensity (Items 3 and 10 in Table 12 of para. 4.11). On the other hand, 2 of the remaining 11 sites with a utilisation ratio of 0% each and scope for increasing the existing building height up to the statutory restriction (Items 2 and 14 in Table 12 of para. 4.11) were not selected for further action.

4.13 In October 2017, the GPA informed Audit that:

- (a) the two DSD's sewage screening plant/pumping station (Items 3 and 10 in Table 12 of para. 4.11) warranted further studies despite the high utilisation ratios in light of the successful new initiative of relocating DSD offices to a sewage pumping station in Kowloon (see Case 1 in para. 2.24); and

Utilisation of government sites

- (b) as regards the two sites with a utilisation ratio of 0% (Items 2 and 14 in Table 12 of para. 4.11), the former had been earmarked for another purpose by a B/D, whereas in the latter, there were constraints in realising its development potential in view of its elongated shape, the existence of a drainage reserve and the need for reserving an access road in the site.

In Audit's view, the GPA needs to document the justifications for selecting sites for site-utilisation reviews.

4.14 *Need to set priority in selecting sites for site-utilisation reviews.* As mentioned in paragraph 4.3, each of the SUD's 5 teams selects annually 17 government sites, making a total of 85 sites for conducting site-utilisation reviews to identify under-utilised sites in accordance with the guidelines specified in the GPA Manual. In May 2017, the SUD commenced another 85 site-utilisation reviews for 2017. As of August 2017, there were 1,569 (1,654 less 85) sites pending site-utilisation reviews by the GPA, which would take a long time to complete the reviews. In Audit's view, the GPA needs to set priority in selecting sites with better development potential for review and follow-up action.

Maintenance of GPIS records

4.15 *Omissions and discrepancies in GPIS records.* The computerised database was developed in 2000 and revamped into the GPIS in 2013 to record the government-owned site, building and premises information in a database (see para. 1.13). The GPIS captured relevant information such as existing GFA and maximum plot ratio, and could generate management reports based on different sorting criteria. Audit sample check revealed that there were omissions and discrepancies, as follows:

- (a) the pertinent site and building records of an unusable property at 405-406 Victoria Road, Mount Davis were missing;
- (b) site information of eight premises/buildings was missing (see Table 13); and

Table 13

**Premises/buildings without site information recorded in the GPIS
(July 2017)**

Item	Premises
1	Cyberport Sewage Treatment Works
2	Sai Ying Pun Jockey Club General Out-patient Clinic
3	Luard Road Refuse Collection Point
4	Gloucester Road Refuse Collection Point
5	Tai Po Tau Water Treatment Works Filtration Plant Building
6	Pak Tin Bungalow (currently used as a social welfare facility)
7	Lower Shing Mun Bungalow (currently used as an office)
8	Lower Shing Mun Village Refuse Collection Point

Source: GPA records

- (c) the status of some government sites was not up-to-date. Examples included:
- (i) the Harbour Road Sport Centre (3 storeys) and the Wan Chai Swimming Pool (Outdoor) which had been demolished for railway development;
 - (ii) Yuet Wah Street Bus Terminus which had been redeveloped into private residential use; and
 - (iii) Kwun Tong District Branch Office and Hip Wo Street Hawker Bazaar which had been demolished for urban redevelopment.

4.16 The GPIS is instrumental in maintaining proper government-owned site, building and premises information which will assist the GPA to identify under-utilised sites. Audit considers that the GPA needs to take measures to ensure that information recorded in the GPIS is accurate and up-to-date.

Audit recommendations

4.17 **Audit has *recommended* that the Government Property Administrator should:**

- (a) **for the redevelopment of the ex-Harbour Hydraulics Laboratory site in Tuen Mun (i.e. Case 5 in para. 4.9):**
 - (i) **seek the steer of the PSG on the unresolved issue of identifying a project proponent and invite the relevant departments to consult their policy bureaux for a decision having regard to the PSG's views if the issue remains unresolved after the PSG's intervention; and**
 - (ii) **expedite action in assisting the LCSD to identify a reprovisioning site for its museum collections in order to speed up the site redevelopment;**
- (b) **maintain records of justifications for selecting government sites for site-utilisation review;**
- (c) **for the 1,569 government sites pending site-utilisation reviews (see para. 4.14), set priority in selecting sites with better development potential for review and follow-up action; and**
- (d) **take measures to ensure that information recorded in the GPIS is accurate and up-to-date.**

4.18 **Audit has also *recommended* that:**

- (a) **the Secretary for Transport and Housing should task the Commissioner for Transport to review whether there is still a need to implement the Kwai Chung Circumferential Road project and if not, release the site for other uses as soon as possible; and**
- (b) **the Director of Civil Engineering and Development should, in consultation with the Secretary for Development:**

- (i) **consider issuing guidelines reminding project offices to acquire sites/properties for their projects after confirming the project implementation programmes; and**
- (ii) **if there are exceptional circumstances warranting the acquisition of a site/property before there is a firm project implementation programme, keep the project under regular review to ensure the best use of the acquired site/property.**

Response from the Government

4.19 The Government Property Administrator agrees with the audit recommendations in paragraph 4.17. He has said that:

- (a) starting from the 2017 site-utilisation review, the GPA has documented the justifications on selecting sites and drawn up guidelines to facilitate the setting of priority in selecting sites with better development potential; and
- (b) the utilisation of a site depends on a range of factors including land use, zoning, topography, availability of vehicular access, reprovisioning feasibility, presence of conservation elements, changes to neighbouring developments, etc. Selection of suitable sites for review involves a holistic consideration of a combination of factors mentioned in paragraph 4.3 and cannot rely simply on one or two factors such as the utilisation ratio or potential for increasing building height.

4.20 The Secretary for Transport and Housing agrees with the audit recommendation in paragraph 4.18(a). The Commissioner for Transport has said that, since 1995, the TD had been informing the GPA that there was no fixed programme for the proposed road project.

4.21 The Secretary for Development and the Director of Civil Engineering and Development agree with the audit recommendation in paragraph 4.18(b).

Utilisation of vacant or under-utilised specialist and departmental accommodation

4.22 *Surplus accommodation.* In the 2008 audit review (see para. 1.14), Audit urged the PSG to provide the GPA with strategic direction and support for handling surplus SDBs. In April 2008, the GPA promulgated a circular setting out the arrangements for handling surplus SDBs as agreed by the PSG, which have been incorporated in the Accommodation Regulations, as follows:

- (a) *Options of alternative use.* The GPA will consider and decide the alternative use of surplus JUBs or leased premises. Other surplus specialist and departmental accommodation (without long-term use) under the purview of individual B/Ds should be put to gainful use in the following order of priorities:
 - (i) interim alternative use within the Government;
 - (ii) commercialisation; and
 - (iii) direct leasing supported by pertinent B/Ds.

Where appropriate and justified, B/Ds may also consider and explore sale or demolition as the ultimate option of dealing with the surplus accommodation or buildings;

- (b) *JUBs and leased premises.* For JUBs or leased premises, departments should notify the GPA upon identifying any part or whole of their accommodation which is or will become surplus in the short or long-term. The GPA will consider and decide whether any alternative use of such surplus accommodation should be approved; and
- (c) *SDBs.* The proponent/user departments of SDBs have the primary responsibility and are accountable for the proper use and optimal utilisation of their accommodation. They should explore and exhaust possible alternative uses within the respective departments before considering giving up the surplus accommodation. If no new user departments can be identified to take over the whole surplus accommodation and assume the role of the land allocatees or the owner department, the original

proponent/user department shall remain as the owner of the surplus accommodation responsible for all matters arising directly or indirectly from it. As the allocatees of an accommodation, the proponent/user departments may request the GPA to assist in identifying other departments to make long-term use of their surplus accommodation.

4.23 The GPA regularly reports to the PSG on a half-yearly basis the position of vacant or under-utilised premises of specialist and departmental accommodation under the purview of individual B/Ds (which were surplus to their requirements). According to the GPA's progress report of April 2017, as of February 2017, there were 27 such vacant or under-utilised premises of specialist and departmental accommodation. Among the 27 premises:

- (a) one had a floor area of 6,852 m² (an ex-secondary school in Mui Wo, Lantau). The ex-school site had been left vacant for more than 5 years and in 2016, the CPLD considered that the future use of the site should be reviewed upon the publication of Lantau Development and Conservation Blueprint for Lantau in 2017 (Note 32). According to the Education Bureau, it had informed the PlanD and other relevant departments (including the LandsD and the GPA) for their consideration of other suitable alternative long-term uses of the vacant school premises under the established mechanism in handling these premises; and
- (b) 26 each had a floor area of less than 500 m². Most of them were vacant staff quarters in remote locations. In terms of vacant period:
 - (i) 19 (73%), including the 6 historic buildings with preservation value (1 declared monuments by the Antiquities Authority and 5 graded buildings by the Antiquities Advisory Board) had been left vacant for over 5 years; and
 - (ii) the remaining 7 (27%) had been left vacant for 5 years or less.

Note 32: *In June 2017, the Blueprint was published which stated that Mui Wo could be revitalised as an enhanced township with small amount of low-density residential developments as well as recreational and tourism-related uses.*

Utilisation of government sites

4.24 To assist the pertinent B/Ds in identifying alternative uses, upon request, the GPA circulates on a quarterly basis surplus specialist and departmental accommodation to B/Ds for identifying possible permanent and temporary uses. Apart from circulating such accommodation to B/Ds, the GPA also posted on its website in March and August 2017 the information of 13 of the 27 vacant or under-utilised premises (including the 6 historic buildings) for bidding by the non-governmental organisations. However, as of August 2017, none of these 13 premises had been allocated to B/Ds or non-governmental organisations for use.

4.25 According to the Accommodation Regulations, if no users can be identified for surplus specialist and departmental accommodation, the original proponent/user department shall remain as the owner of the surplus accommodation responsible for all matters arising directly or indirectly from it (see para. 4.22(c)). Given that no alternative use for the 27 vacant or under-utilised premises within the Government could be identified despite efforts made by the GPA, the relevant B/Ds need to explore other measures to put the premises into gainful use in accordance with the requirements of the Accommodation Regulations (i.e. commercialisation, direct leasing and sale or demolition where permitted (see para. 4.22(a)), seeking the assistance from the GPA if required.

4.26 According to the progress report of April 2017 (see para. 4.23), there were four unusable properties (with floor areas ranging from 105 m² to 1,212 m²). They were classified as condemned buildings pending review/demolition. The GPA should, in collaboration with the PlanD and the relevant owner B/Ds, determine the long-term use of the sites, and work out a suitable disposal option in accordance with the Accommodation Regulations (e.g. sale or demolition).

Audit recommendations

4.27 **Audit has *recommended* that the Government Property Administrator should:**

- (a) **remind relevant B/Ds to explore other measures to put the 27 vacant or under-utilised premises of specialist and departmental accommodation into gainful use in accordance with the requirements of the Accommodation Regulations; and**

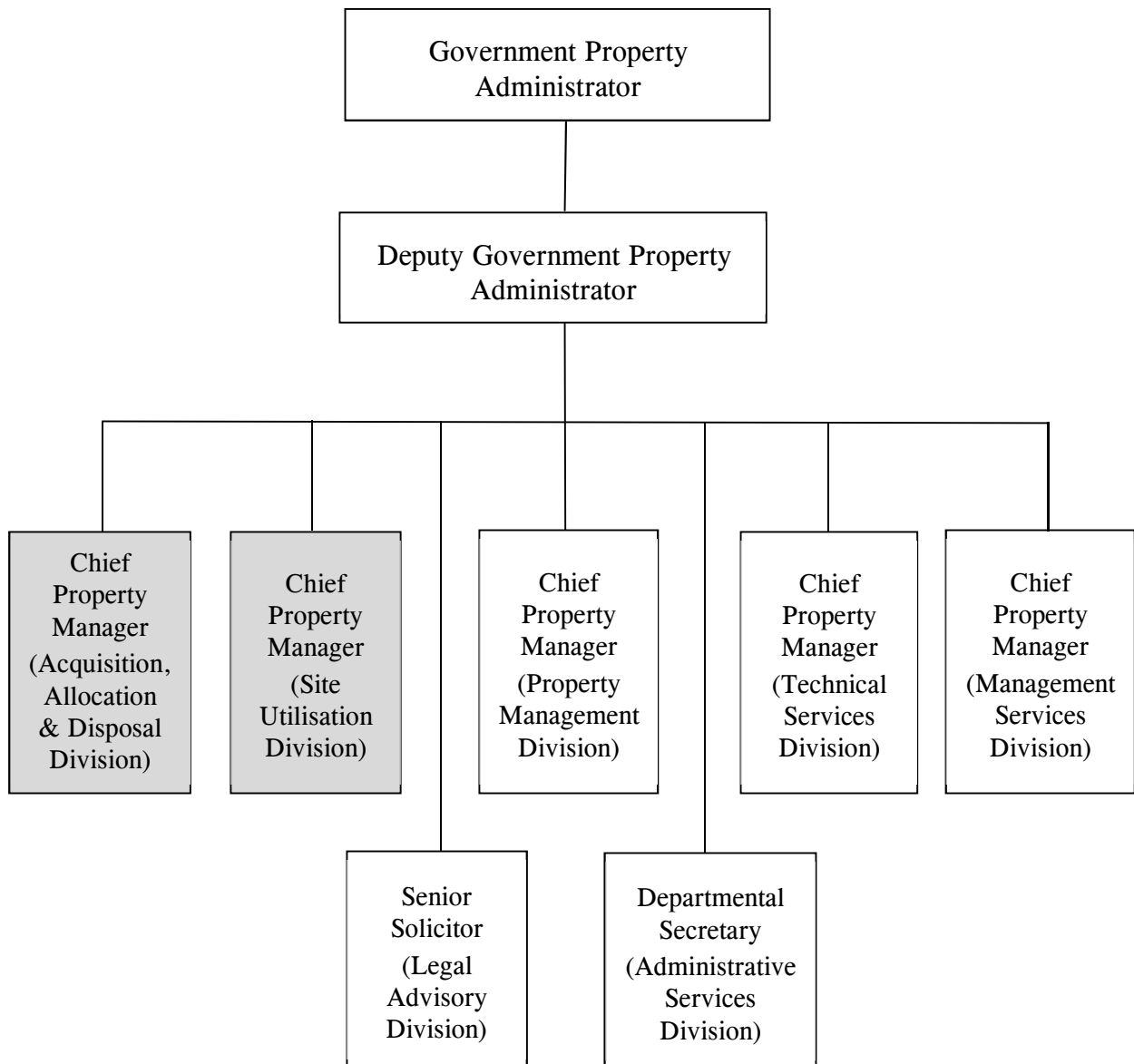
- (b) **in collaboration with the Director of Planning and the relevant owner B/Ds, determine the long-term use of the sites of the four unusable properties and work out a suitable disposal option.**

Response from the Government

4.28 The Government Property Administrator generally agrees with the audit recommendations. He has said that the GPA regularly reminds B/Ds to put their vacant premises to gainful use in the annual stewardship statement exercise (see para. 1.7) and the periodic departmental circulation of surplus accommodation. The GPA will continue to remind the relevant B/Ds to explore other measures to put the 27 vacant or under-utilised premises into gainful use.

4.29 The Director of Planning agrees with the audit recommendation in paragraph 4.27(b).

**Government Property Agency:
Organisation chart
(July 2017)**



Legend: Divisions mainly responsible for handling matters relating to provision of government office accommodation and utilisation of government sites

Source: *GPA records*

Terms of reference of the Property Strategy Group

The terms of reference of the PSG are to:

- (a) consider and decide on issues or cases for the optimal utilisation of government sites (i.e. G/IC sites which have been allocated or reserved for government uses), and the incorporation of government uses into private development;
- (b) develop guidelines, and identify and promote programmes or projects, for the optimal utilisation of government sites as well as to maintain an oversight on their implementation;
- (c) consider and decide on issues or cases for management, alternative use and release as appropriate of under-utilised or surplus government properties and the sites involved;
- (d) consider and decide on departmental appeals on issues or cases related to optimum site utilisation, including those on reprovisioning arrangements, joint-user developments and government uses in private developments; and
- (e) consider and decide on whether PWP projects using less than full development potential of G/IC sites can be allowed to proceed to Public Works Subcommittee submission.

Source: FSTB records

**A comparison of the time taken in
implementing three government-building projects**

	Project		
	Central Government Complex at Tamar	Trade and Industry Tower at Kai Tak	WKGO at West Kowloon
Date of inclusion in PWP	February 2004	November 2007	July 2003
Date of funding approval	June 2006	January 2012	June 2015
Time taken from inclusion in PWP to funding approval	2 years 4 months	4 years 2 months	11 years 11 months
Date of project completion	July 2011	April 2015	Early 2019 (estimate)
Total NOFA (m ²)	62,340	33,000	50,500
Area for reprovisioning accommodation in leased premises (m ²)	5,520 (8.9% of 62,340 m ²)	16,500 (50% of 33,000 m ²)	29,290 (58% of 50,500 m ²)

Source: GPA records

**Other redevelopment cases monitored by
the Property Strategy Group
(June 2017)**

Item	Site	Site area (m ²)
6 cases referred by the CPLD		
1	General Post Office	3,900
2	Whitfield Depot cum offices and quarters	6,600
3	Ex-Ma Kok Street Cooked Food Hawker Bazaar	2,400
4	Chak On Road Driving Test Centre and its adjoining area	9,458
5	Wong Tai Sin Community Centre	2,000
6	Ex-Yu Chau West Street Cooked Food Hawker Bazaar	800
5 other cases referred by PSG members		
7	5-7 Yip Shing Street, Kwai Chung (Case 6)	1,400
8	Kowloon West Regional Police Headquarters	10,475
9	Tuen Mun Water Treatment Works Staff Quarters, Lam Tei Raw Water Pumping Station and adjoining Staff Quarters	1,930 2,800
10	Ex-Western Police Married Quarters (Sai Ying Pun)	3,800 (Note)
11	Ex-Mui Fong Street Cooked Food Bazaar	600

Source: GPA records

Note: The ex-Western Police Married Quarters (occupying about 3,800 m²) were situated in the compound of the Western Police Station with a total site area of 6,900 m².

Remarks: Other than the 11 sites (as of June 2017) monitored by the PSG, the GPA also monitors 22 identified sites with redevelopment potential and reports to the PSG on the positions of these sites on a half-yearly basis.

Acronyms and abbreviations

ADD	Acquisition, Allocation and Disposal Division
ArchSD	Architectural Services Department
AROA	Annual review of office accommodation
Audit	Audit Commission
B/D	Bureau/department
C&SD	Census and Statistics Department
CBD	Central Business District
CCD	Central Casefile Depository
CEDD	Civil Engineering and Development Department
CKR	Central Kowloon Route
CPLD	Committee on Planning and Land Development
CSD	Correctional Services Department
DEVB	Development Bureau
DSD	Drainage Services Department
FC	Finance Committee
FSTB	Financial Services and the Treasury Bureau
ft ²	Square feet
GFA	Gross floor area
G/IC	Government, institution or community
GPA	Government Property Agency
GPIS	Government Property Information System
HQs	Headquarters
HyD	Highways Department
JUB	Joint-user general office building
LandsD	Lands Department
LCSD	Leisure and Cultural Services Department
LD	Labour Department

Appendix E
(Cont'd)

LegCo	Legislative Council
LWB	Labour and Welfare Bureau
m	Metres
m ²	Square metres
NOFA	Net operational floor area
OZP	Outline Zoning Plan
PlanD	Planning Department
PSG	Property Strategy Group
PWP	Public Works Programme
REO	Registration and Electoral Office
RVD	Rating and Valuation Department
SDB	Specialist and departmental building
SUD	Site Utilisation Division
SWD	Social Welfare Department
TD	Transport Department
TDD	Territory Development Department
WCGOC	Wan Chai Government Offices Compound
WKGO	West Kowloon Government Offices
WSD	Water Supplies Department