

PROVISION OF GOVERNMENT OFFICE ACCOMMODATION AND UTILISATION OF GOVERNMENT SITES

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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 leasing 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 leasing 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 leasing 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.