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**Paper for meeting between LegCo Members and
The Ombudsman on 5 December 2001**

**Background brief on acquisition of
permanent office accommodation by The Ombudsman**

Purpose

This paper provides a summary of discussions by LegCo Members on the acquisition of permanent office accommodation by The Ombudsman.

Background

2. The Office of The Ombudsman has all along been housed in leased commercial premises and currently occupies four different floors in Tower One in Gateway in Tsim Sha Tsui. The possibility of acquiring permanent accommodation was raised in the context of discussion on delinking the Office from the Administration.

Discussion by the LegCo Panel on Administration of Justice and Legal Services

3. The proposal was first discussed by the LegCo Panel on Administration of Justice and Legal Services at its meeting on 26 April 2001. Members noted the proposal by The Ombudsman to purchase and fit out some 2,200 sq m (net usable area) of Grade A office accommodation at an estimated project cost of up to \$187.6 million in money-of-the-day prices. Members raised concern on the cost-effectiveness of the proposal, and The Ombudsman's power as regards the acquisition, leasing or disposal of the property.

4. The Ombudsman assured members that the proposal would be more cost-effective in the long term as owned premises provided security of tenure and protection from rent increase upon lease renewal. With the amendments to The Ombudsman Ordinance (Cap. 397) (which were passed at the Council meeting on 28 November 2001), The Ombudsman would be empowered to acquire, hold or dispose of property as a legal entity. However, The Ombudsman could not sell or lease any part of the property to any other person without the prior written approval of the Administration. The detailed requirements would be set out in the form of a Memorandum of Administrative Arrangement. The Deputy Director of Administration added that the new legislative provision would also specify that any proposal by The Ombudsman to invest resources not immediately required to be expended was subject to the approval of the Director of Administration who should in turn consult the

Secretary for the Treasury. The Administration would ensure that the arrangements were in line with the proper discharge of the statutory duties and functions of the Office.

5. At members' request, the Administration provided supplementary information after the meeting on the cost-effectiveness of the proposal. The Administration anticipated that the payback period for the purchase of permanent office would be in the region of 18 years. The current market unit prices for Grade A offices in convenient urban areas ranged from \$60,000 to \$100,000 per sq m, and the funding sought was \$75,000 per sq m. The equivalent monthly market rent for the office to be purchased would be in the range of \$278 to \$347 per sq m, and compared favourably with the monthly unit rent of the existing premises of The Ombudsman at \$409 per sq m.

Discussion by the Public Works Subcommittee

6. When the proposal was considered at the meeting of the Public Works Subcommittee on 16 May 2001, members raised concern on a number of areas. They questioned: the need to purchase Grade A office in Central and Tsim Sha Tsui; the provision of \$8,000 per sq m for the fitting-out works which was exceptionally high and might not be justified; the cost-effectiveness of purchasing two parking spaces at an estimated cost of \$1.3 million each; and the increase in space provision from 1 741 sq m at present to 2 200 sq m. The responses of the Administration and The Ombudsman were as follows:

- (a) Grade A offices referred mainly to office premises with considerable net usable area on each floor and provision of central air-conditioning. Apart from offices in Central and Tsim Sha Tsui, suitable premises in peripheral areas along the MTR line in Mong Kok, North Point and Sheung Wan, and Grade B office premises which met with the Office's requirements, would also be considered. The Administration stressed the need for conveniently located premises with good access to public transport to facilitate service for the public;
- (b) the standard of fitting-out was the same as that for a bureau secretary at which the ranking of The Ombudsman was pitched. The estimate of \$17.6 million for design and fitting-out (at \$8,000 per sq m) included a contingency provision to cater for uncertainties such as the potential requirement of the relevant developer to engage a specific contractor for certain fitting-out works. The Administration assured members that the fitting-out would be strictly in compliance with relevant Government standards, and akin to the existing provision for the existing leased office premises for the Office;

- (c) two parking spaces were required as one would be provided for The Ombudsman and the other for office use. The estimated total cost of \$2.6 million represented the average market price of parking spaces for office premises within the range of \$60,000 to \$75,000 per sq m, but the price might be lower if office accommodation of a lower price was identified; and
- (d) the increase in office space provision was on account of the standard provision of 5% reserve space for expansion, the provision of a mediation room and additional office accommodation for consultants, space for the storage of the Office's records and for in-house staff training, and space for additional staff needed to cope with the workload.

7. Members generally considered the proposed budget on the high side. In view of members' concerns and queries, the Administration withdrew the proposal for further consideration.

8. The proposal was again put to the Public Works Subcommittee at its meeting on 13 June 2001 during which members were informed that:

- (a) the Government Property Administrator had conducted a thorough search for possible suitable premises in the Sheung Wan, Central, North Point, Tsim Sha Tsui and Kowloon Bay areas. The Administration proposed the adoption of \$60,000 per sq m (as compared to \$75,000 per sq m in the original proposal) on net usable area for estimating the overall purchase price;
- (b) on the basis of the findings and recommendations of the Director of Architectural Services, the total fitting-out cost would be revised to \$14.3 million, or \$6,500 per sq m (as compared to \$17.6 million or \$8,000 per sq m in the original proposal);
- (c) the cost of the two parking spaces would be reduced broadly in line with the revision in the price ceiling sought to \$1 million each (as compared to \$1.3 million in the original proposal). If no car parking spaces were available for sale in the vicinity of the premises acquired, leasing would be pursued; and
- (d) the payback period would be in the region of 16 years, and the maximum market rental of the shortlisted buildings would be in the region of \$312 per sq m, as compared to the actual rental of \$409 per sq m for the existing premises.

9. Members noted the revised estimated cost at \$150.7 million and in general considered the revised proposal acceptable. However, some members were still concerned with the cost-effectiveness of purchasing two carparking spaces at a price of \$2 million. The Ombudsman assured members that the option of renting carparking spaces would be actively considered and the anticipated 16-year payback period would be used as the yardstick. She undertook to report to the Subcommittee after the decision on whether or not the carparking spaces would be purchased was made. The item was endorsed by the Subcommittee, and approved by the Finance Committee at the meeting on 6 July 2001.

Complaints Division
Legislative Council Secretariat
30 November 2001