

## A. Introduction

The Audit Commission (Audit) carried out a review to examine the economy, efficiency and effectiveness of the Government Property Agency (GPA) in respect of the commercialisation and utilisation of government properties. The review focused on the following areas:

- commercialisation of government properties;
- management and reporting of identified commercialisation opportunities; and
- utilisation of vacant and surplus government properties.

## B. Commercialisation of government properties

### Realising the commercial potential of the Trade and Industry Department (TID) Tower

2. According to paragraphs 2.12 to 2.14 of the Director of Audit's Report (Audit Report), the TID Tower is a unique government property located at a prime location and has considerable commercial value. Audit pointed out that the GPA had not conducted a cost-benefit analysis before relocating the Student Financial Assistance Agency (SFAA) to portions of the mezzanine and the first floors of the TID Tower in 2007. Audit considered that this might not be the most economic use of the space released by the TID because the ground, the mezzanine, the first and the second floors (i.e. the lower floors) of the TID Tower were designed as a retail shopping arcade.

3. In paragraph 2.19 of the Audit Report, Audit recommended that the Government Property Administrator should explore the commercialisation opportunities of converting the basements, the ground, the mezzanine, the first and the second floors into a shopping arcade for retail use, taking into account the future use of the TID Tower, the market conditions and the successful experience of letting out the Queensway Plaza.

4. Against the above background, the Committee asked why the GPA decided to allocate the surplus areas released by the TID in 2007 to the SFAA without conducting a cost-benefit analysis.

5. **Mr Keith KWOK Ka-keung, Government Property Administrator**, replied at the public hearing and in his letter of 15 May 2008, in *Appendix 5*, that:

- the TID Tower was purchased by the Administration for government use. In 1989, the Finance Committee approved funding for the purchase of the TID Tower and the conversion of the shopping arcade (except the ground floor) to

government office accommodation. The Administration made an informed decision at that time and considered that it was justified to convert the shopping arcade (except the shop space on the ground floor facing the streets) to office accommodation for the TID;

- according to the procedures on allocation of surplus accommodation provided in Accommodation Circular No.1/97 (AC 1/97) (in **Appendix 6**), once surplus accommodation was available, the GPA would try to identify alternative government users. Failing this, the GPA would assess the commercial viability of the premises and dispose of those with commercial potential, either through commercial leasing or by sale; and
- the GPA followed the general principle of AC 1/97 that government-owned premises were to be used for providing accommodation for public facilities or use as government offices. By reducing the shortfall in government accommodation, the leased accommodation used by government departments would be minimised. In line with this principle, the space on the mezzanine floor, first and second floors of the TID Tower was allocated to the then Trade Department in 1990, even though it was being used as a shopping arcade at the time of acquisition. Similarly, portions of the mezzanine and the first floors of the building were allocated to the SFAA to meet its demand for office accommodation when the areas were released by the TID in 2007.

6. As to why the GPA had not conducted a cost-benefit analysis before allocating the areas to the SFAA, the **Government Property Administrator** responded that:

- in 2006, the Administration already had a plan to dispose of the TID Tower en bloc upon relocation of all government offices in the TID Tower to a new government office building in the Kai Tak Development in about five years' time. The current timetable was that the offices would be relocated in 2013-2014. Through en bloc acquisition, the new owner would have the full flexibility to re-model the whole building, e.g. transforming the lower floors to a modern arcade and possibly introducing other facilities in some of the office floors. En bloc sale would enable the new single owner to put the building to the most economic use and in turn offer the potential highest bid price of the building to the Administration;
- the GPA also considered that converting the lower floors to retail shops would generate a large amount of construction and demolition debris, arousing environmental concern;
- given the planned en bloc sale of the TID Tower in 2013-2014, the principle that surplus accommodation should be allocated to meet the demand of government users for office space, and the high cost involved in converting existing office space to retail use, the GPA did not consider it necessary to

conduct a cost-benefit analysis before allocating the areas to the SFAA in 2007. Nevertheless, for any surplus accommodation which the Administration did not have any long-term plan for disposal, the GPA would take into consideration its commercial potential when deciding on its allocation;

- despite the principle of handling surplus government accommodation laid down in AC 1/97, in response to the Audit's recommendation in paragraph 2.19 of the Audit Report, the GPA had carried out a preliminary assessment (in *Appendix 7*) in February 2008 to evaluate whether it was financially feasible to convert the mezzanine floor into arcade shops. The assessment indicated that the cost of conversion was likely to exceed the financial benefit which might be derived from it by \$8.5 million over five years; and
- the result of the preliminary assessment confirmed that the GPA's decision of not conducting a cost-benefit analysis at that time was correct.

7. The Committee asked the Secretary for Financial Services and the Treasury for his views on the Government Property Administrator's stance that there was no need to conduct a cost-benefit analysis before allocating the areas to the SFAA in 2007 and about the government policy in this regard. **Prof Hon K C CHAN, Secretary for Financial Services and the Treasury**, stated that:

- although the lower floors of the TID Tower were originally designed as a shopping arcade, the whole building was purchased by the Administration for the purpose of providing government office accommodation. Such use had been approved by the Finance Committee; and
- the current government policy was that when there was surplus accommodation in government premises, priority should be given to allocating it to government departments which considered the premises suitable for their use. As for the TID Tower, since the lower floors were designed as a shopping arcade, their commercial value could also be taken into account if a cost-benefit analysis was to be conducted.

8. The Committee noted that in allocating the surplus areas of the TID Tower in 2007, the GPA had followed the general principle and procedures of AC 1/97, and that there was no requirement in AC 1/97 for the GPA to conduct a cost-benefit analysis before allocating surplus accommodation to alternative government users. The arrangements were also in line with existing government policy. In addition, the Committee was aware that Audit had always taken the view that government departments should strictly follow all government policies, regulations, guidelines and procedures, unless exemptions were obtained from the relevant authorities. Under the circumstances, the Committee asked about the basis of Audit's comment in paragraph 2.22(a) of the Audit Report that the GPA

should have conducted a cost-benefit analysis of converting all or portions of the lower floors to retail use before allocating the surplus areas to the SFAA in 2007.

9. **Mr Benjamin TANG, Director of Audit**, responded in his letter of 16 May 2008 in *Appendix 8* that:

- as stated in paragraph 1.2 of the Audit Report, the GPA's objectives in respect of the utilisation and commercialisation of government properties were to ensure that all government accommodation was fully utilised with maximum efficiency and value for money, and to introduce appropriate commercial activities in suitable government accommodation so as to maximise the return to the Government for its capital investment;
- Audit noted that, the GPA, by relocating the SFAA to the TID Tower, might not have fully utilised the TID Tower with maximum efficiency and value for money, and had not explored appropriate commercialisation opportunities in the TID Tower so as to maximise the return to the Government. The reasons were as follows:
  - (a) the TID Tower was acquired by the Administration in 1990. At the time of acquisition, the lower floors were fitted out as a shopping arcade and leased to retail shops. The Administration finally considered that it was justified to convert the shopping arcade (except the ground floor) to office accommodation for the TID because of the special circumstances mentioned in paragraph 2.8 of the Audit Report. However, following the scheduled phase-out of textiles quotas by 2005, the special circumstances of the TID no longer existed and the TID was able to deliver surplus areas to the GPA. In view of the change in circumstances, the GPA should review whether the continuous use of the lower floors as office accommodation was justified when surplus areas were released by the TID. To achieve maximum value for money, the GPA should evaluate whether it would be more economical to relocate the SFAA to other available surplus government accommodation or less costly leased office accommodation at that time; and
  - (b) as it was the GPA's objective to introduce appropriate commercial activities in suitable government accommodation so as to maximise the return to the Government, Audit considered that the GPA should explore the commercialisation opportunities of the TID Tower. As stated in paragraph 2.13 of the Audit Report, the basements, the ground, the mezzanine, the first and the second floors of the TID Tower had valuable commercial potential for use as a shopping arcade. To maximise the return to the Government, the GPA should evaluate the costs and benefits of converting the lower floors for retail use; and

- similar to the case of the Queensway Plaza, Audit considered that the GPA should not follow AC 1/97 mechanically in warranted cases and should not follow the principle of minimising the leased accommodation if substantial benefits could be obtained. Audit therefore stated in paragraph 2.22(a) of the Audit Report that the GPA should have conducted a cost-benefit analysis of converting all or portions of the lower floors to retail use before allocating the surplus areas to the SFAA in 2007.

10. The Committee noted from the Government Property Administrator's reply that the results of the GPA's preliminary assessment indicated that converting the mezzanine floor to retail use would incur a financial loss. The Committee enquired about:

- the details of the preliminary assessment, and whether the GPA had informed Audit of the results of the assessment during the audit study; and
- Audit's views on the results of the preliminary assessment.

11. The **Government Property Administrator** said that:

- in the preliminary assessment, the GPA used the mezzanine floor as an example to analyse the costs and benefits of the conversion. The GPA had taken into consideration the rental expenses involved in leasing alternative offices of similar quality in the locality for accommodating the offices displaced from the TID Tower, the fitting-out cost of the alternative offices, the cost of conversion from an office floor to an arcade floor, and the advertising cost. Moreover, if the conversion was materialised, additional operating costs would be incurred due to the need to keep the converted floors open during non-office hours; and
- the GPA had informed Audit of the information on and the results of its preliminary assessment.

12. The **Director of Audit** responded at the public hearing and in his letter of 16 May 2008 that:

- Audit had been provided with information on the GPA's preliminary assessment. Audit had reservations about the results of the GPA's assessment because it was not a comprehensive analysis. The assessment was based on the mezzanine floor, as an example, rather than the lower three floors. Audit also had reservations about the assumptions (based on internal floor area) used in the preliminary assessment, i.e. the rental income of \$800 per square metre per month, and the rental expenses of \$420 per square metre per month; and

- Audit had recommended that the GPA should conduct a detailed analysis and formulate a strategic plan to cater for changes in circumstances in future, such as in the event that there was slippage in the timing of the relocation to the new government office building in the Kai Tak Development. The GPA might also explore the option of letting out the whole shopping arcade to a principal tenant, similar to the arrangement for the Queensway Shopping Mall.

13. The Committee further asked, in recommending the GPA to explore the commercialisation opportunities of converting the basements, the ground, the mezzanine, the first and the second floors into a shopping arcade for retail use, whether Audit had taken into account factors that might constrain the amount of rent that the converted retail floors could command, such as whether the converted floors would be open in the evenings, on weekends and public holidays, which were peak periods for retail business.

14. In his letter of 16 May 2008, the **Director of Audit** stated that:

- the current shopping environment of the TID Tower was mentioned in paragraph 2.27 of the Audit Report; and
- Audit considered that the rental value of a shopping arcade might be increased by improving the pedestrian flow and allowing the shops to operate in the evenings, on weekends and public holidays. To improve the pedestrian flow, the GPA might explore the feasibility of re-opening the footbridge to the Argyle Centre Tower I, connecting the elevated pedestrian walkway over Mong Kok Road to the TID Tower, and even providing direct access to the Mass Transit Railway (MTR) station through the basement of the TID Tower.

15. At the request of the Committee, the GPA conducted a detailed cost-benefit assessment of the project of converting the government offices on the lower floors (excluding the ground floor) of the TID Tower into arcade shops for the period from May 2008 to December 2013, in addition to the preliminary assessment undertaken in February 2008.

16. The **Government Property Administrator** provided the feasibility study report to the Committee in Enclosure 1 of his letter of 15 May 2008. He also stated in the letter that:

- the total cost of the proposed conversion, which included the cost of the conversion works advised by the Architectural Services Department with due regard to the requirements of the subject premises, and rental expenditure and fitting-out costs of the replacement offices, was expected to be \$267 million.

Despite the increased rental income which might be derived from the converted premises, the conversion project was likely to incur a net loss of \$71 million, having regard to the current plans to dispose of the TID Tower in 2013. This would render the conversion financially not viable;

- a business model on the basis of engaging a principal tenant, which helped shorten the project timeline, would not significantly improve the financial viability unless a sufficiently long lease was granted to enable the principal tenant to recoup the upfront capital outlay. However, with the planned en bloc sale in 2013-2014, the encumbrance of an existing long lease of the lower floors would only constrain the prospective buyer's total re-modelling plan to develop the best strategy to enhance the value of the whole TID Tower (including both the lower floors and upper office floors), which would in turn affect the potential highest proceeds of sale for the Government;
- the conversion project would also involve intangible costs, such as construction and demolition debris for a likely limited service life of the converted space, the impact on the operation of the user government departments to be displaced, and the impact on the services delivered by these departments to the public;
- based on the outcome of the analysis, it would appear neither prudent to spend government money on the conversion project nor feasible to engage a principal tenant to do the work. With the planned relocation of all the government offices in the TID Tower to the new Kai Tak Government Offices building in 2013-2014, the GPA believed that the optimal strategy was to sell the whole TID Tower with vacant possession in the open market without conversion of the lower floors for retail use in the interim;
- the GPA would continue to monitor the situation and conduct further analyses on the viability of conversion of the lower floors of the TID Tower for retail use in the event of changes in circumstances, such as changes in the Kai Tak Development plan, that might affect the timing of the relocation to the new government office building; and
- the GPA would also review the cost and rent assessments periodically as and when there were changes in circumstances in future, such as changes in costs or office/retail rent in the locality.

17. The Committee enquired whether the timing of relocating all government offices in the TID Tower to the new government office building in 2013-2014 was realistic, having regard to the latest progress of the Kai Tak Development plan.

18. **Mr Joseph LAI Yee-tak, Director-General of Trade and Industry**, said that according to the latest information, the offices of the TID in the TID Tower would be moved to the new government office building in the Kai Tak Development in 2013.

19. The **Government Property Administrator** said that according to the latest information from the relevant works department, the infrastructure works for the Kai Tak Development would commence in mid-2009 for completion in time to meet the target completion of the government joint-user office building in 2013-2014. Hence, the GPA considered it realistic to relocate all government offices in the TID Tower to the new government joint-user office building in 2013-2014.

20. To further ascertain whether the target of relocating the government offices in 2013-2014 was realistic, the Committee asked:

- whether the GPA was regularly informed of the progress of the Kai Tak Development plan, including the progress made in constructing the new government office building; and
- when the GPA was last informed of the progress of the Kai Tak Development plan prior to the preliminary assessment conducted by the GPA in February 2008, and the details thereof.

21. In his letter of 9 May 2008, in **Appendix 9**, the **Secretary for Financial Services and the Treasury** responded that:

- the GPA was the project proponent of the new government joint-user office building in the Kai Tak Development. Being the project proponent, the GPA had been in close liaison with relevant bureaux and works departments and had kept the programme of the project under regular review. The Administration was now conducting an engineering study of the Kai Tak Development and the GPA had been participating in the study in relation to the planning of essential infrastructure serving the new government joint-user office building. Inter-departmental meetings were convened regularly to monitor, coordinate and ensure adherence to the infrastructure programmes; and
- the preliminary assessment conducted by the GPA in February 2008 on the viability of converting the lower three floors of the TID Tower to retail use had taken into account the Kai Tak Development programme updated by the Civil Engineering and Development Department in January 2008 on the basis that the essential infrastructure was planned to be completed in time for the commissioning of the new government joint-user office building in the Kai Tak Development in 2013-2014.

Enhancing the commercial value of the shops

22. According to paragraphs 2.24 and 2.25 of the Audit Report, in 1990, when the GPA first let out the ground floor shops in the TID Tower, the monthly rents compared favourably with the corresponding Rating and Valuation Department rental valuations of ground floor shops at nearby developments. On the whole, the annual rental income of the shops in the TID Tower over the 18-year period from 1990 to 2007 had increased by 38%. However, for seven shops on the ground floor of the TID Tower, the monthly rents per square metre in 2007 were substantially lower than those in 1990. Audit commented in paragraph 2.27 that as the TID Tower was located in a prime commercial location, there was a need to enhance the commercial value of the shops on the ground floor so as to maximise the return on the Government's investment.

23. The Committee asked the reason why the rents for the seven shops on the ground floor were significantly lower than those in 1990. The **Government Property Administrator** explained that:

- as indicated in Appendix D of the Audit Report, with the exception of the seven shops referred to by Audit, the monthly rents per square metre of the other six shops on the ground floor of the TID Tower in 2007 were higher than those in 1990, with the highest percentage of increase being 295%; and
- the significant decrease in rent in respect of some shops was mainly due to the construction of an elevated pedestrian walkway system over Mong Kok Road and its connecting escalators/lift, and the removal of a pedestrian crossing connecting the south and the north of Mong Kok Road in 2003. These had a negative impact on the pedestrian flow in front of the shops and in turn the rental value of the shops. This reflected that the rental values of the seven shops were affected by conditions of the surrounding environment beyond the GPA's control.

24. The Committee further asked about the measures that the GPA would take to enhance the commercial value of the shops on the ground floor of the TID Tower before the building was disposed of in 2013-2014, and the cost-benefit analysis for implementing the measures.

25. The **Government Property Administrator** stated, at the public hearing and in his letter of 15 May 2008, that:

- with a view to enhancing the commercial value of the shops on the ground floor of the TID Tower before the disposal of the building in 2013-2014, the GPA would actively explore the possibility of combining some of the shops, step up advertising and marketing efforts and improve the lighting of the

external areas, so as to enhance the attractiveness of the shop premises to pedestrians;

- the GPA was prepared to pursue the above measures, taking into consideration that the implementation costs were mainly related to the alteration cost of combining the shops concerned, the installation of banners and the increase in power consumption for the extended period of lighting, while the benefit was that the measures might be able to increase the volume of pedestrian flow and the market's awareness of shops on the ground floor of the TID Tower, hence enhancing the rental value of the shops; and
- some of the measures, such as combining shops and enhanced advertising and marketing, could only be taken when the existing tenancies were due to expire in 2009-2010. Moreover, it was difficult to quantify the benefits of additional lighting for the external areas of the TID Tower. In any case, any such benefits would only be realisable when the existing tenancies were replaced by new ones.

### **C. Management and reporting of identified commercialisation opportunities**

26. As revealed in paragraphs 3.3 to 3.5 of the Audit Report, in January 2004, the Leisure and Cultural Services Department informed the GPA that an advertising agent had expressed interest in using the external fence wall of the Mong Kok Stadium facing Boundary Street for displaying outdoor advertisements. In July 2004, after site inspections, the Site Utilisation Division (SUD) of the GPA proposed to let out the external fence walls of the Mong Kok Stadium facing Boundary Street and Flower Market Road for outdoor advertisements. However, after the drafting of the tender documents in July 2004, no proper follow-up action was taken by the SUD to pursue the case until April 2007. The Committee asked why the GPA had not followed up the commercialisation opportunity at the Mong Kok Stadium for an unduly long period of three years.

27. The **Government Property Administrator** responded that:

- he admitted that the GPA had not handled the case properly. The responsible staff had not taken follow-up action after the tender documents were drafted in July 2004. According to the GPA's record, the case was accorded a low priority at that time because there were other urgent cases. As the SUD, which was responsible for handling such cases, did not have sufficient manpower at that time, the staff concerned gave priority to other cases involving a larger amount of money. Delays had also been caused by staff transfers;

- the GPA had now proceeded with the tender for a licence of the advertising area on the external fence wall of the Mong Kok Stadium facing Boundary Street; and
- to prevent the recurrence of similar cases, the GPA had put in place systems and plans since 2006 to closely monitor the progress of identified commercialisation opportunities. This practice had been formalised in Technical Circular No. 2/2008 issued in February 2008.

28. The Committee asked about the details of the systems and plans that had been put in place since 2006, including the critical steps involved in the monitoring process and the rank of the officer in charge of each step.

29. In his letter of 15 May 2008, the **Government Property Administrator** informed the Committee that:

- according to the systems introduced by the GPA in 2006 to monitor the progress of commercialisation cases, when a government property was identified as having new commercialisation opportunities and included in the Controlling Officer's Report in the year concerned, a detailed study would be carried out by the respective Property Managers in the SUD to see if it was feasible to let out the property for commercial use. If it was found feasible, the property would normally be let out by public tender. If it was found not feasible due to market conditions, the property would be brought up for review, taking into account the changing market conditions in the usual three-year cycle;
- the respective Property Managers were required to report quarterly on the progress of all identified commercialisation opportunities. Such quarterly progress reports were closely monitored by the respective Senior Property Managers and reported to the Head of the SUD (a D1 officer). Furthermore, since late 2007, the progress of each identified commercialisation opportunity had been required to be reported and discussed in the monthly divisional meeting chaired by the Head of the SUD; and
- since their introduction, the new measures had been working satisfactorily and had succeeded in identifying the single outstanding case subsequently mentioned in the Audit Report. With the new systems in place, the GPA had also taken action to review its records and had found no other outstanding cases.

#### **D. Utilisation of vacant and surplus government properties**

30. According to paragraphs 4.3 to 4.19 of the Audit Report, three government premises in Building A, Building B and Building C, originally reserved as MTR entrance/exit areas, had remained vacant for a long period of time. The premises in Building A and Building B, located in private developments and vested in the Financial Secretary Incorporated (FSI), had remained vacant since they were assigned to the then Colonial Treasurer Incorporated (now the FSI) in 1980 and 1982 respectively. The premises in Building C, assigned to “the Government of Hong Kong” in 1994 and managed by the Buildings Department (BD), had remained vacant since 1994. The Committee asked why the Administration could not put the premises to gainful uses over the years, leading to loss in government revenue.

31. The **Government Property Administrator** explained that putting the premises in Building A and Building B to other uses was subject to a lot of constraints, one of which was the building concessions issue. There was also the problem of water seepage. More importantly, according to the relevant agreement or deed of mutual covenant, the premises were restricted to use for MTR purpose. This might render it impossible to put the premises to other uses. As shown in Appendices H and I of the Audit Report, the GPA’s efforts to put the premises to other gainful uses over the years were unsuccessful.

32. In response to the Committee’s enquiries, the **Director of Audit** said that:

- Audit understood that the GPA faced a lot of constraints in exploring options to put the premises to other gainful uses. However, leaving the premises vacant for a long time was undesirable due to the negative impact on public revenue, the cityscape and the living environment in the locality; and
- Audit recommended that the GPA should work in collaboration with other relevant government departments to resolve the outstanding issues, with a view to putting the premises to other gainful uses.

33. Regarding the building concessions issue, the Committee referred to paragraph 4.8 of the Audit Report which stated that under section 41 of the Buildings Ordinance, buildings belonging to the Government (i.e. including the premises vested in the FSI) would be exempt from the provisions of the Buildings Ordinance. The Committee asked whether the premises in Building A and Building B were exempt from the provisions of the Buildings Ordinance.

34. **Mr CHEUNG Hau-wai, Director of Buildings**, stated at the public hearing and in his letter of 9 May 2008 (in *Appendix 10*) that:

- when exploring the feasibility of putting FSI premises to some use, the BD gave various views on the types and use of premises that might be exempt from the Buildings Ordinance. In 1994, the BD gave the view that FSI premises were exempt from the Buildings Ordinance and therefore the regulations related to permitted plot ratio were not applicable. The view at that time was that as FSI premises were buildings belonging to the Government, they were exempt from all the provisions of the Buildings Ordinance by virtue of section 41(1)(a) thereof;
- the BD's interpretation of the Buildings Ordinance had always been developing with the accumulation of knowledge and experience with the types and use of premises, such as Public Transport Interchange incorporated in private building development. With such development since the above advice was given to the GPA in 1994, the BD's current view was that although FSI premises were exempt from the Buildings Ordinance by virtue of section 41(1)(a), the exemption applied to the premises themselves only. The land on which the building concerned was erected and thus the building as a whole, of which the FSI premises only formed a part, was not exempt from the provisions of the Buildings Ordinance. This was because the land was not unleased land and the building as a whole was not a building belonging to the Government; and
- based on its current interpretation of the Buildings Ordinance, the BD was of the view that as the permissible gross floor area (GFA) and plot ratio were related to the land and the building as a whole, the FSI premises could not be excluded from GFA calculation by virtue of its exemption under section 41(1)(a) of the Buildings Ordinance. Any proposal to put the premises to other uses would necessitate the granting of new exemptions from GFA calculation under the Buildings Ordinance, as the basis for the original exemption no longer applied. To dispel any doubt on its current view as mentioned above, the BD would work together with the GPA and seek legal advice in this regard.

35. In response to the Committee's question on the progress made in consulting the Department of Justice, the **Director of Buildings** said that the BD had already started discussion with the GPA on the possible gainful uses of the premises and later would consult other relevant government departments, including the Department of Justice. He hoped that a result would be obtained in three months' time.

## **E. Conclusions and recommendations**

36. The Committee:

### Commercialisation of government properties

- notes that:

(a) in allocating surplus areas of the Trade and Industry Department (TID) Tower in 2007, the Government Property Agency (GPA) followed the general principle of Accommodation Circular No. 1/97 and the procedures on allocation of surplus accommodation contained therein, as follows:

(i) government-owned premises are to be used for providing accommodation for public facilities or used as government offices, and by reducing the shortfall in government accommodation, the leased accommodation used by government departments will be minimised; and

(ii) once surplus accommodation is available, the GPA will try to identify alternative government users. Failing this, the GPA will assess the commercial viability of the premises, and dispose of those with commercial potential, either through commercial leasing or by sale; and

(b) the Audit Commission (Audit) has always taken the view that government departments should strictly follow all government policies, regulations, guidelines and procedures, unless exemptions are obtained from the relevant authorities;

- considers that Audit's view, that in this case the GPA should not "mechanically" follow the existing principle and procedures on allocation of surplus accommodation, may cause difficulties for government departments in deciding whether to comply with all applicable government policies, regulations, guidelines and procedures;

- agrees with the GPA that:

(a) in allocating surplus areas of the TID Tower in 2007, it should follow the general principle and procedures of Accommodation Circular No. 1/97; and

- (b) if the lower floors of the TID Tower are not required for government use, then in considering whether such floors should be converted to retail use, the GPA should take into account the results of its cost-benefit analyses that the conversion is likely to incur a financial loss;
- notes that the Government Property Administrator will continue to monitor the situation and conduct further analyses on the conversion of the lower floors of the TID Tower for retail use in the event of changes in circumstances, such as changes in the Kai Tak Development plan that might affect the timing of the relocation of the government offices in the TID Tower to the new government office building;

Management and reporting of identified commercialisation opportunities

- notes that:
  - (a) to keep track of the results and monitor the progress of identified commercialisation opportunities, the Site Utilisation Division (SUD) of the GPA maintains a list of such opportunities for each year; and
  - (b) the SUD updates the progress of each case included in these lists on a quarterly basis;
- expresses concern that:
  - (a) the GPA had not followed up the commercialisation opportunity at the Mong Kok Stadium for an unduly long period of three years. The financial benefits of the proposed tender for the commercialisation opportunity have been adversely affected and there are revenue implications to the Government;
  - (b) the GPA had not monitored closely the commercialisation opportunity at the Mong Kok Stadium. Although the progress of the case was updated quarterly by the SUD, the actual status of the case was not reported and the management was not aware of the delay;
  - (c) there was a prolonged delay in finalising the detailed instructions to be followed for handling recommendations made for not pursuing identified commercialisation opportunities; and
  - (d) the instructions specified by the Deputy Government Property Administrator in June 2003 did not apply to the letting of advertising areas;

- notes that the GPA:
  - (a) had put in place systems and measures since 2006 to monitor the progress of identified commercialisation opportunities;
  - (b) issued a Technical Circular in February 2008 to formalise the practice of closely monitoring the progress of identified commercialisation opportunities and requiring officers to update the progress of all newly identified commercialisation opportunities; and
  - (c) issued a Technical Circular in March 2008 to cover all the existing practice in respect of commercialisation opportunities, including the letting of advertising areas not covered by the interim skeleton standing instructions;
- notes that the Government Property Administrator has generally accepted the audit recommendations mentioned in paragraph 3.12 of the Director of Audit’s Report (Audit Report);

Utilisation of vacant and surplus government properties

- expresses concern that:
  - (a) three government premises in Building A, Building B and Building C, reserved as Mass Transit Railway (MTR) entrance/exit areas, had remained vacant for a long period of time. The premises in Building A and Building B, located in private developments and vested in the Financial Secretary Incorporated (FSI), were assigned to the then Colonial Treasurer Incorporated (now the FSI) in 1980 and 1982 respectively. The premises in Building C were assigned to “the Government of Hong Kong” in 1994;
  - (b) up to 31 December 2007, the Government and the Incorporated Owners of Building A were in dispute over the legal responsibility for rectifying the water seepage problem;
  - (c) the premises in Building A had been used without authorisation and knowledge of the GPA on two occasions;
  - (d) after a lapse of eight years, the GPA had not explored the option of using the premises in Building B as a “cash point”, for panel advertising or display boxes;
  - (e) up to 31 December 2007, the dispute over the responsibility for stopping the water seepage in Building B remained unresolved;

- (f) the issue of building concessions in Building A and Building B had not been resolved;
  - (g) the premises in Building C were not assigned to the FSI and were not included in the GPA's government-owned premises register; and
  - (h) after a lapse of two and a half years and as at 31 December 2007, the GPA had still not finalised the arrangements for handling surplus specialist departmental buildings;
- acknowledges that:
- (a) the GPA has been liaising closely with the Architectural Services Department to monitor the situation of water seepage in the vacant government premises in Building A and Building B;
  - (b) the GPA is seeking legal advice from the Department of Justice regarding the legal responsibility for the water seepage;
  - (c) the Building Department (BD)'s current view on whether FSI premises are exempt from the provisions of the Buildings Ordinance is that as the permissible gross floor area (GFA) and plot ratio are related to the land and the building as a whole, the FSI premises cannot be excluded from GFA calculation by virtue of its exemption under section 41(1)(a) of the Buildings Ordinance. Any proposal to put the premises to other uses will necessitate the granting of new exemptions from GFA calculation; and
  - (d) the BD has started discussion with the GPA on possible gainful uses of the reserved MTR entrance/exit areas and will later consult other relevant government departments, including the Department of Justice;
- notes that:
- (a) the Government Property Administrator has generally accepted the audit recommendations mentioned in paragraphs 4.21, 4.22 and 4.23 of the Audit Report, and accepted the audit recommendations mentioned in paragraph 4.35 of the Audit Report;
  - (b) the Director of Architectural Services has supported the audit recommendations mentioned in paragraphs 4.21(a) and 4.23 of the Audit Report;
  - (c) the Director of Buildings has agreed with the audit recommendations mentioned in paragraph 4.22 of the Audit Report;

- (d) the Director of Lands has agreed with the audit recommendation mentioned in paragraph 4.23 of the Audit Report; and
- (e) the Director of Highways has agreed with the audit recommendation mentioned in paragraph 4.23 of the Audit Report;
- urges:
  - (a) the Government Property Administrator and the Director of Buildings to expeditiously consult the Department of Justice and other relevant government departments, with a view to putting the vacant government premises in Building A, Building B and Building C to gainful uses; and
  - (b) the Government Property Administrator to resolve the dispute over the legal responsibility for the water seepage and rectify the water seepage problem in the vacant government premises in Building A and Building B without further delay; and

Follow-up action

- wishes to be kept informed of:
  - (a) the result of consultation with the Department of Justice and other relevant government departments in respect of putting the vacant government premises in Building A, Building B and Building C to gainful uses;
  - (b) the progress made by the GPA in rectifying the water seepage problem in the vacant government premises in Building A and Building B; and
  - (c) any other progress made in implementing the various audit recommendations.