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來函檔號 Your Ref.:

15 January 2004

Ms Miranda HON
Clerk, Public Accounts Committee
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Ms HON,

**The Public Accounts Committee's consideration of
the Director of Audit's Report No. 31**

Relocation of the General Post Office (GPO)

Thank you for your letter dated 5 January 2004. I attach hereto the Costs and Benefits Analysis (CBA) conducted in October 2002 for the captioned project.

The recommendation made in the Audit Report No. 31, published in October 1998, was that the General Post Office (GPO) should be relocated to low value areas in order to release the existing GPO site in Central District (the Site) for redevelopment. It was the assumption then that the Site should have a plot ratio of 15 by comparison to nearby commercial/office developments. The Administration agreed with the recommendation and proceeded to take on the Relocation Project. Several reprovisioning options were considered. With time and efforts, an approach emerged that the GPO would need to be reprovisioned to three locations. The plan was to reprovision the GPO Headquarters and the Sorting Centre to a site in Chai Wan (Location One); the Delivery Office to a site zoned for government, institution or community use in Sai Ying Pun (Location Two); and the Counter and PO Box Sections to a commercial premises in Central District (Location Three). In order to fully utilise the site potential of the Chai Wan site, the Water Supplies Department (WSD) was identified to be another major joint-user in the project with the benefit of releasing WSD's under-developed site (zoned for commercial use) in North Point for sale.

The above-mentioned CBA (Attachment) showed that the aggregated cost of the three reprovisioning items was \$2,174 million. Together with the aggregated land cost of \$59 million for the sites and other miscellaneous costs, the total costs therefore would amount to **\$2,233 million**. On the benefits side, the relocation exercise would enable the release of three sites for redevelopment (i.e. two HKP sites and one WSD site). Rental savings would also be achieved by de-leasing some leases. The aggregated value of the three sites was estimated to be in the region of **\$1,601 million**. The total costs over the benefits as demonstrated in the CBA would be **\$632 million**, if the rental savings of about \$13 million per annum to HKP were to be excluded in the computation. (Note : Even if the rental savings of \$13M were to be capitalised and taken into account, the capital costs would still exceed the benefits by \$479 million.)

As mentioned earlier, the main reason for undertaking the Relocation Project was that the Site was much under-utilised. In 2000 however the land use planning of the Central District was comprehensively reviewed. As a result, the Site was included as part of a Comprehensive Development Area and subject to a height restriction of 50m above principle datum on the approved Central District (Extension) Outline Zoning Plan. The new planning criteria drastically reduced the plot ratio of the Site from **15** to about **3.6** only (representing a substantial reduction of **76%**). In the meantime, the property market continued to fall and the updated estimate of capital value of the Site had to reflect the market reality. Having conducted the CBA, the Administration critically reviewed the position and decided to abandon the Relocation Project because there was no economic case to proceed further. It was then considered that even if the property market would rebound in future, the land sale proceeds might not cover the reprovisioning costs, given that the plot ratio had been reduced by 76%. Should there be positive change(s) in circumstances, the Administration would be prepared to review the position and assess if an economic case can be established.

If further clarification is required, I should be happy to provide it.

Yours sincerely,



(K K MOK)

Acting Government Property Administrator

c.c. Director of Audit

Cost-Benefit Analysis of relocating the General Post Office (as at October 2002)

| <u>Costs</u> | | <u>Benefits</u> | |
|--|-------------------|---|-------------------|
| | HK\$ (million) | HK\$ (million) | HK\$ (million) |
| Lump Sum | | | |
| Proposed Reprovisioning Projects | | Value of sites to be released through relocation exercise | |
| i New Post Centre in Chai Wan : | | | |
| Site value | 50 | i GPO site in Central | 484 |
| Construction cost | | (forming part of CDA) | |
| | | ii IMC site in Hung Hom | 437 |
| ii Delivery Office in Sai Ying Pun : | | iii WSD site in North Point | 680 |
| Site value | 9 | | |
| Construction cost | | | |
| | | | |
| iii Counter/PO Box in Central (in a commercial development) | | | |
| Procurement Cost | | | |
| | | | |
| Other costs : | | | |
| Infrastructure machinery & equipmer | | | |
| Removal of miscellaneous items | | | |
| | | | |
| | <u>59</u> | | <u>1,601</u> |
| | 2,174 | | |
| | | Benefits minus Cost | -632 (Note) |
| Recurrent | | | |
| | | Annual rental savings | 13 (Note) |

Note

the result of taking into account rental savings:

| | |
|---|----------------|
| Benefits | 1,601 M |
| <u>add</u> rental savings \$13M, capitalised at 8.5% yield | <u>153 M</u> |
| | 1,754 M |
| <u>minus</u> total costs | <u>2,233 M</u> |
| | -479 M |