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Public Accounts Committee

Hong Kong Housing Authority: Management of commercial properties

The Public Accounts Committee ("PAC") Report No. 59 was tabled in the Council on 6 February 2013. In Part 3 of the Report on the "Report of the Public Accounts Committee on Report No. 56 of the Director of Audit on the Results of Value for Money Audits", the latest progress of implementing the Director of Audit's recommendations in relation to the management of commercial properties of the Hong Kong Housing Authority was reported (see the **Appendix** attached).

2. While the PAC will keep in view of further development on the subject, the PAC has recommended that the issues concerned be referred to the Panel on Housing for follow-up.


(Mary SO)
CCS(4)2

Encl.

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P.A.C. Report No. 59 – Part 3
Report of the Public Accounts Committee on Report No. 56 of the Director of Audit
on the Results of Value for Money Audits [P.A.C. Report No. 56]

Laying of the Report Report No. 56 of the Director of Audit on the results of value for money audits was laid in the Legislative Council ("LegCo") on 13 April 2011. The Committee's Report (Report No. 56) was subsequently tabled on 6 July 2011, thereby meeting the requirement of Rule 72 of the Rules of Procedure of the LegCo that the Report be tabled within three months of the Director of Audit's Report being laid.

2. **The Government Minute** The Government Minute in response to the Committee's Report No. 56 was laid in the LegCo on 19 October 2011. A progress report on matters outstanding in the Government Minute was issued on 30 October 2012. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 8 below.

Hong Kong 2009 East Asian Games
(Chapter 1 of Part 4 of P.A.C. Report No. 56)

3. The Committee was informed that:

Administrative arrangements

- the 2009 East Asian Games (Hong Kong) Limited ("the EAG Company") had refunded the balance of its liquidation account of \$10,199,421 to the Government in August 2011;
- the Liquidator had completed the liquidation process for the EAG Company and the Company was dissolved in December 2011; and

Reconversion of office accommodation into squash courts

- with the support of the Central and Western District Council and the relevant National Sports Association, the Leisure and Cultural Services Department would reconvert the office space at the Hong Kong Squash Centre to six squash courts for multi-purpose use to meet the public demand for facilities for different sport including squash, dancing, fitness training and table tennis.

4. The Committee wishes to be kept informed of the progress made in reconverting the office space at the Hong Kong Squash Centre back to squash courts.

Hong Kong Housing Authority: Management of commercial properties
(Chapter 3 of Part 4 of P.A.C. Report No. 56)

5. Hon Alan LEONG Kah-kit and Hon Kenneth LEUNG declared that they were currently the non-official members of the Hong Kong Housing Authority ("HA").

6. The Committee was informed that:

- the Housing Department ("HD") had implemented the Audit's recommendations, a summary of the updated progress of the implementation is in *Appendix 3*;
- on the part concerning the performance measurement and reporting, the HD had reviewed the performance targets for different types of commercial properties and had developed new key performance indicators ("KPI") to improve the monitoring of the vacancy position of various types of commercial properties such as retail premises, shopstalls and cooked food stalls, carparks and factory premises and to enhance the performance of the commercial operations covered by the business plan for commercial properties operated by the HA. The Commercial Properties Committee ("CPC") of the HA, when considering the 2012-2013 HA's commercial business plan, endorsed the new KPI and the revised approach to setting performance targets, including the reporting of vacancy rates for different categories of non-domestic properties. The progress of the implementation of the new measures would also be reported to the CPC on a regular basis through the mid-year and year-end reviewing exercises; and
- in response to the recommendation to conduct a post-implementation review ("PIR") for the 2005 divestment of the HA's retail and carpark facilities, the HD had engaged the Efficiency Unit to conduct the PIR. The PIR had been completed and the HD had taken note of the PIR's findings and recommendations.

7. The Committee recommends that the issues related to the management of HA commercial properties, including the findings and recommendations of the PIR for the 2005 divestment of the HA's retail and carpark facilities, be followed up by the LegCo Panel on Housing.

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8. The Committee also wishes to be kept informed of further development on the subject.

**Hong Kong Housing Authority: Management of Commercial Properties
Updated Progress of Implementing Audit Recommendations**

Audit Report para. no.	Audit recommendations	Progress to date
PART 2 : MANAGEMENT OF RETAIL PREMISES		
2.20	<p>Day-to-day Management of Retail Premises</p> <p>Follow-up of suspected cases identified by Audit</p> <p>(a) take follow-up actions on those suspected cases identified by Audit during the course of the audit review;</p> <p>Unauthorised use and alteration of retail premises</p> <p>(b) request HD staff and contractors to step up their daily patrol work and unit-to-unit inspections to prevent unauthorised use and alteration of retail premises (including storerooms);</p> <p>(c) provide guidelines to HD/contractor staff on the use of a risk-based approach in conducting unit-to-unit inspections, ensuring that those high-risk categories (e.g. repeated offenders and non-trading retail premises) are inspected with a higher priority and frequency;</p>	<p>(a) The HD has investigated into individual suspected cases of improper use of retail premises and storerooms and taken prompt tenancy enforcement actions.</p> <p>(b), (c) and (d)</p> <p>The HD has extended the unit-to-unit inspection exercise to cover all the 2,800 storerooms and issued a new instruction to provide detailed guidelines for staff to strictly enforce the unit-to-unit inspection according to the prescribed priority and frequency based on the high-risk categories such as repeated offenders. In addition, report on cases with irregularities observed will be submitted to the senior management on a quarterly basis for monitoring purpose.</p>

Audit Report para. no.	Audit recommendations	Progress to date
	<p>(d) remind HD staff and contractors to report irregularities observed in the unit-to-unit inspections to HD senior management in the quarterly progress report;</p> <p>Suspected gambling activities</p> <p>(e) step up measures to combat suspected gambling activities in the HA retail facilities;</p>	<p>In addition, the HD also deploys the Headquarters Audit Teams to conduct random checks for management control purpose.</p> <p>(e) The HD will continue to report promptly all suspected gambling activities to the Police for law enforcement action. To further bolster the deterrent effect, the CPC endorsed in August 2011 to include the mal-practice of playing mahjong, Tin Kau and card games with gambling elements inside the leased premises as a misdeed under the Enhanced Marking Scheme for Commercial Properties (Marking Scheme) with allotment of five demerit points without warning. The existing tenancy agreement for commercial premises has been strengthened by adding a new clause of disallowing mahjong playing and activities other than the designated trade inside the leased premises.</p>

Audit Report para. no.	Audit recommendations	Progress to date
	<p>Retail premises not regularly open for business</p> <p>(f) ascertain the reasons for the prevalence of non-trading in some of the retail facilities during normal business hours, and take actions to address them;</p> <p>(g) consider stipulating a non-trading rule in the HA's tenancy agreements for retail shops and cooked-food-stalls (CFS);</p> <p>(h) consider tightening the non-trading rule for the HA market stalls, making reference to the Food and Environmental Hygiene Department's practice;</p> <p>(i) maintain inspection records to provide supporting evidence for enforcing the non-trading under the tenancy agreements;</p> <p>(j) report to the CPC significant non-trading problem, as well as the measures taken to tackle it;</p>	<p>(f), (g), (h), (i) and (j)</p> <p>The HD completed the stock-taking of retail premises not regularly open for business and reported findings and proposed measures to address it to the CPC in late August 2011. To ensure the business operation in a normal manner, the HD has added new clauses to the tenancy agreements to specify the minimum opening hours and business days of shopstalls, ground floor shops and retail facilities in shopping centres with open layout. HD frontline staff will continue to maintain inspection records of non-trading to support tenancy enforcement action.</p>

Audit Report para. no.	Audit recommendations	Progress to date
	<p>Misdeeds under the marking scheme</p> <p>(k) closely monitor the enforcement work to combat the obstruction problem;</p> <p>(l) step up enforcement actions against those tenants who have repeatedly committed misdeeds under the marking scheme; and</p> <p>(m) remind HD staff and contractors to strictly follow the established procedures in taking enforcement actions.</p>	<p>(k), (l) and (m)</p> <p>The HD will continue to strengthen enforcement action to combat obstruction in public area in accordance with the established procedures under the Marking Scheme. The HD has conducted briefings and issued instructions to remind frontline staff to tighten up control of obstructions. In addition, the HD has arranged the Mobile Operations Unit to reinforce them to remove obstructions and also deployed the Headquarters Audit Teams to conduct random checks for monitoring purpose.</p>
2.30	<p>Letting of retail premises</p> <p>Publicising vacancies of retail premises</p> <p>(a) ensure that all vacant retail premises available for letting are widely publicised. In particular, HD staff should be reminded that:</p> <p>(i) all vacant retail premises are put up for open tender as frequently as practicable; and</p> <p>(ii) “For Lease” posters are put up on the front of all vacant retail premises; and</p>	<p>(a) (i) and (ii)</p> <p>The HD will continue to publicise vacancies through advertisements and the HA/HD website and re-let vacant retail premises as frequently as practicable. Leasing information on the proposed trades including invitation to suggest alternative trades will also be posted on the shop front of these premises as well as on the HA/HD website.</p>

Audit Report para. no.	Audit recommendations	Progress to date
	<p>Re-tendering vacant retail premises for letting</p> <p>(b) in re-letting vacant retail premises (especially those long vacant premises), consider further encouraging prospective tenants to make trade suggestions.</p>	<p>(b) The HD has implemented the new strategy since mid-2011 to invite potential tenderers to suggest their preferred trades after two rounds of unsuccessful tenders.</p>
2.40	<p>Priority for major improvement works</p> <p>(a) duly take into account the vacancy rates of retail facilities when selecting them for carrying out major improvement works to enhance their commercial potential;</p> <p>Need to reduce market vacancy rate</p> <p>(b) take early action to address the long-standing vacancy problem in some of the HA markets; and</p> <p>Implementation of the revised leasing strategy for CFS</p> <p>(c) implement the revised leasing strategy for CFS as soon as possible.</p>	<p>(a) The HD has been setting the priority for major improvement programmes according to a comprehensive analysis of the commercial potential of individual retail premises based on their respective strength and weakness and with vacancy rates taking into consideration.</p> <p>(b) The HD is implementing various management initiatives to reduce the vacancy rate through market re-ordering and conversion plans to suit the local need.</p> <p>(c) The HD has completed studies on the possible options to dispose of the ten vacant CFS with letting formalities on the pipeline.</p>

Audit Report para. no.	Audit recommendations	Progress to date
2.48	<p>Monitoring of operating expenditure</p> <p>(a) improve the current monitoring mechanism to ensure that:</p> <p>(i) all cases of non-compliance (i.e. those exceeding the operating expenditure benchmarks) are reported to the senior management;</p> <p>(ii) effective follow-up actions are taken on all cases of non-compliance; and</p> <p>(iii) the unit operating expenditure for the retail facilities are correctly calculated; and</p> <p>(b) ensure that the daily expenses are correctly charged to the appropriate business accounts.</p>	<p>(a)(i), (ii) and (iii)</p> <p>HD staff have been reminded to observe the internal instructions in place and report for improvement of any non-compliance cases. Periodic reviews on operating expenditure of respective items at regional and headquarters level will be conducted with a view to meeting the budget accuracy and compliance to the set benchmarks.</p> <p>(b) The HD has provided two specific training courses to local management staff on accounting guidelines and charging principles for business accounts and will continue organising regular briefing sessions and seminars to enrich their knowledge of financial management.</p>

Audit Report para. no.	Audit recommendations	Progress to date
PART 3 : MANAGEMENT OF CAR PARKS		
3.12	<p>Planning the provision of parking facilities</p> <p>In consultation with the Transport Department (TD), the HD should continue to regularly review and, if necessary, refine the parking planning standards, having regard to the changing supply and demand conditions.</p>	<p>The HD will maintain the existing co-ordination mechanism with the TD to review and refine the planning standards of parking spaces and will carefully plan the provision of car-parking facilities in new public housing developments on a case-by-case basis.</p>
3.21	<p>Measures to improve the utilisation of parking spaces</p> <p>Expedite efforts to implement the recommendations arising from the strength-weakness-opportunity-threat (SWOT) analyses.</p>	<p>While a five-year programme for carpark improvement based on SWOT analyses endorsed by the CPC will be rolled out, the HD will implement short-term measures such as change of use of parking spaces (e.g. change from private-car to motor-cycle parking spaces) and letting to non-residents to improve occupancy rates.</p>
3.34	<p>Conversion of surplus carpark facilities into other uses</p> <p>In exploring major conversion of commercial premises in future, the HD should ensure that:</p> <p>(a) the rent for the converted premises is assessed, duly taking into account the conversion costs and the proposed use of the premises; and</p>	<p>(a) The HD will continue the practice to make rental assessment on all these conversion projects with due consideration to costs and proposed use.</p>

Audit Report para. no.	Audit recommendations	Progress to date
	(b) conversion works commence only after the signing of the letter of offer, and the premises are handed over to the tenant only after the signing of the tenancy agreement.	(b) Recommendation noted.
PART 4 : MANAGEMENT OF FACTORY ESTATES		
4.11	<p>Need to work out a definite clearance plan for Chai Wan Factory Estate (CWFE)</p> <p>The HD should draw up, as soon as possible, a definite clearance plan for the CWFE, having regard to such factors as the building conditions, vacancy rate, and expected use of the site.</p>	The clearance plan for the CWFE was announced on 10 March 2011.
4.16	<p>Long-term development of newer factory estates</p> <p>(a) review the position of the six newer factory estates, and explore the clearance/redevelopment of these factory sites in the light of the latest market conditions; and</p> <p>(b) develop a strategy for the long-term development of HA factory estates, having regard to the policy of progressively absolving the HA from the ownership and management of such estates.</p>	<p>(a) and (b)</p> <p>Given the persistent demand for small factory units, the HD will continue the management of the six newer factory estates and review the situation from time to time.</p>
4.28	<p>Suspected Subletting of factory premises</p> <p>(a) follow up on the suspected subletting cases identified by Audit;</p>	(a) The HD has investigated into individual suspected subletting cases and taken rectification actions.

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	<p>(b) investigate whether there are similar cases of subletting in HA factory premises and take necessary follow-up actions; and</p> <p>(c) step up the HD's efforts to combat the problem of subletting of HA factory premises. In particular, HD staff should be reminded to strictly follow the Factory Manual procedures (including sanction measures) to detect and deter subletting.</p>	<p>(b) and (c)</p> <p>The HD has put in place an enhanced system on unit-to-unit inspection to factory units to facilitate better control and management. Clear guidelines have also been issued to strengthen the reporting and checking mechanism.</p>
PART 5 : PERFORMANCE MEASUREMENT AND REPORTING		
5.12	<p>Performance management</p> <p>To enhance the performance measurement and reporting, the HD should:</p> <p>Performance information on the vacancy position</p> <p>(a) review and revise the basis for calculating the vacancy rate of retail premises;</p> <p>(b) consider presenting additional information to the CPC on the percentage of those vacant but committed areas, analysed by categories;</p>	<p>(a) All new premises which are not yet ready for letting has been excluded from the total stock in calculation of vacancy position since January 2011.</p> <p>(b) A steer from the CPC will be sought in the forthcoming annual review concerning the approach in reporting vacancy rate of different categories of non-domestic premises.</p>

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	<p>Customer satisfaction level</p> <p>(c) devise a mechanism to gauge, and report to the CPC, the residents' satisfaction level on various aspects of performance in respect of the management of commercial properties; and</p> <p>Key Performance Indicators (KPIs) and targets for different types of properties</p> <p>(d) consider setting specific KPIs and targets (e.g. vacancy rate) for different types of commercial properties.</p>	<p>(c) The HD has included residents' satisfaction level on the management of HA's commercial properties in the annual Public Housing Recurrent Survey (PHRS) from 2011 onward.</p> <p>(d) This will be considered in preparing the 2012/13 business plan for commercial properties.</p>
PART 6 : THE WAY FORWARD		
6.26	<p>Divestment of Retail and carpark (RC) Facilities</p> <p>(a) continue the HD's efforts to take effective actions (including the allocation of adequate manpower) for discharging its responsibilities as the Deed of Mutual Covenant (DMC) manager of the estates with divested properties;</p> <p>(b) obtain feedback on the tenants' satisfaction level on the management of commercial properties, for the purpose of benchmarking the performance of the HA against that of the private sector;</p>	<p>(a) As the DMC manager in estates with divested properties, the HD will continue to discharge its responsibilities effectively and professionally.</p> <p>(b) The HD has included residents' satisfaction level on the management of HA's commercial properties in the annual PHRS from 2011 onward.</p>

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	<p>(c) when planning a similar divestment exercise in future, in consultation with the Secretary for Transport and Housing and the Secretary for Financial Services and the Treasury:</p> <p>(i) critically assess the potential financial implication of transferring the beneficial ownership of the divested properties without a definite timeline for the transfer of legal; and</p> <p>(ii) duly take into account the need to continue to assume the responsibilities as the DMC manager of the estates with divested properties; and</p> <p>(d) in consultation with the Secretary for Transport and Housing and the Secretary for Financial Services and the Treasury:</p> <p>(i) conduct a PIR of the 2005 divestment exercise to evaluate its effectiveness and to identify if there are lessons to be learnt; and</p> <p>(ii) based on the outcome of the review, formulate a long-term strategy and map out the way forward for the management of HA commercial properties.</p>	<p>(c) Recommendations noted whilst the HA has no plan to further divest its RC facilities.</p> <p>(d) Though the HA has no plan to further divest its RC facilities, the HD has engaged EU to conduct the PIR of the 2005 exercise which is underway.</p>