



Your Ref.: CB(4)/PAC/R62  
Our Ref.: HD (AU) AC

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Date: 30 May 2014

Clerk  
Public Accounts Committee  
Legislative Council  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong.  
(Attn.: Ms. Mary SO)

Dear Mary,

**Public Accounts Committee**

**Consideration of Chapter 2 of the Director of Audit's Report No. 62  
Planning, Construction and Redevelopment of Public Rental Housing Flats**

With reference to your letter dated 16 May 2014 addressed to the Secretary for Transport and Housing on the subject issue, I set out the Administration's bilingual response at the **Annex** for your reference, please.

Yours sincerely,

(Ms. Ada Y.S. FUNG)  
for Secretary for Transport and Housing

**Encl.**

c.c. Secretary for Transport and Housing (fax no. 2523 9187)  
Secretary for Development (fax no. 2151 5303)  
Secretary for Financial Services and the Treasury (fax no. 2147 5239)  
Director of Audit (fax no. 2583 9063)

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Public rental housing ("PRH") supply and demand forecast

- (a) *whether there will be a mechanism under the new methodology to review/update long-term housing demand to determine the quantum of PRH production required to maintain the Average Waiting Time ("AWT") at three years as pledged by the Government;*

We continue to strive at maintaining the AWT target at around three years for general applicants. Fluctuations in demand and supply may lead to occasional departure from this target, and the increasing demand in recent years presents a mounting challenge.

The previous housing demand projection model included a long term projection of PRH demand. We do not intend to resume this method for reasons we explained at the hearings.

Instead, the Long Term Housing Strategy Steering Committee suggested that we move on to a new method of projecting long term housing demand, which includes PRH demand. We are working on this new method, in the course of formulating our Long Term Housing Strategy. Our current thinking is that instead of trying to guess the AWT in the next 10 years, we will keep in view the number of new general applications in a year (which can serve as a medium term reference for the number of flats required to satisfy the needs of these PRH applicants after three years) and the changes in the actual AWTs (which capture the latest changes in the past 12 months). These will be more reliable references. We will also maintain the interchangeability of production between PRH and Home Ownership Scheme flats so that the supply of PRH flats can be adjusted wherever necessary and feasible to meet the evolving needs of the community in a timely manner. In addition, we will continue our existing practice of publishing the actual AWTs on a quarterly basis for public's reference.

PRH sites returned to the Government

- (b) why the Transport and Housing Bureau did not refuse to return the three PRH sites (which were agreed to during the previous term Government) to the Government in 2013;***

Please refer to our response to question (s) of Public Accounts Committee's letter ref. CB(4)/PAC/R62 dated 9 May 2014.

Construction works management

- (c) *whether consideration could be given to setting the life cycle of a PRH construction project at five years, provided that the site is properly zoned, resumed, cleared and formed with adequate provisions of infrastructure, and early support from the District Council concerned and the local communities secured (paragraph 3.4 of the Director of Audit's Report ("Audit Report") refers); if not, why not;*

We have been striving to expedite the whole construction process without compromising quality and site safety.

The five-year duration is achievable only under fast-tracked programme for completion of a 40-storey public housing block on “spade ready” sites. (i.e. sites which are flat and have been properly zoned for residential use, and sites which are resumed, cleared and formed, with adequate provisions of infrastructure).

The five-year programme includes one year for the fast-tracked planning and design stage, half a year for tendering, and three and a half years for foundation and construction works. That implies making the best effort to fast-track the preparatory work by compressing the programme for various feasibility studies, consultations with District Councils and local communities, planning and design works from three years for a normal project to one year for a fast-tracked project.

However, the key to prompt delivery of public housing hinges essentially on securing “spade ready” sites. In addition, early support of District Councils and the local communities as well as having all the other resources including adequate manpower in place are essential.

We cannot take “spade ready” sites and early community support for granted, but even assuming we can, construction itself sometimes takes longer than three and a half years. This happens in cases such as building sitting on podium with deep and difficult foundation, or

building exceeding 40 storeys and hilly site with extensive site formation work.

The five-year duration is achievable only under very favorable conditions. Therefore it is not advisable to rigidly set the life cycle of a PRH construction project at five years. We have to examine the nature and relevant features of particular project sites.

*(d) what steps have been/will be taken to enhance the works at various stages of a PRH construction project, so that the project can be completed in a timely manner or earlier than the planned completion date;*

We will closely monitor the project progress at all stages so that the programme can be completed in timely manner.

As for the construction works, we will conduct a series of upfront measures to avoid risk. These include implementation of more ground investigation works to assess ground condition to avoid delay for foundation, advanced trial pit for underground utilities to ensure no underground obstruction, advanced hoarding work and off site drainage and plumbing work to facilitate the building construction.

We have been extending adoption of precast elements to roof and external works including precast parapet wall, water tank and manhole.

Since precast elements are cast independent of the in-situ construction works, the construction sequence can be smoothed on site and also relieve the labour strength in the local construction industry.

We report the project progress to the HA's Building Committee (BC) on a monthly basis for programme monitoring.

Planned timeframe for PRH production

- (e) *what lessons have been learnt from the project delay of PRH construction at Tuen Mun Area 18, and what steps have been/will be taken to avoid similar incidents from recurring;*

PRH construction project delays

- (f) *what is the period of delay of the whole contract in the Tuen Mun Area 18 project referred to in Table 9 in paragraph 3.9 of the Audit Report;*

[Combined response to (e) & (f)]

The domestic portion was completed on time. Table 9 indicates that there was no delay to the domestic portion and Building Contract because there was no planned completion date for the Community Hall as stated in the Building Committee Paper.

There were objections to the Tuen Mun Area 18 project from the local communities, on the ground of high concentration of public developments and inadequate community facilities in the district. The Project Team had taken steps actively to address the issue of the provision of a Community Hall, and to liaise with all concerned government bureaux and departments for funding and technical approvals.

The case shows that consultations may take a long time, and that sometimes it may be difficult to complete consultations within a pre-determined schedule. We have been conducting consultations as early as possible to deal with concerns and objections from the local communities or other stakeholders, in order to ensure that both the domestic portion and the community facilities are delivered in a timely manner.

- (g) *what are some of the other legitimate or genuine grounds for extension of time, which were not contained in the contract, that the contractors were entitled to;*

These legitimate or genuine grounds for extension of time were delays which were beyond the control of the contractors or the HA, such as exceptional inclement weather, late possession of site, delay by other parties such as the utility companies, delayed utilities connections due to congested underground conditions and complex ground conditions.



- (h) what measures would be taken by the HD to monitor the performance of contractors and progress of the construction works, and minimize construction programme slippage;***

During the construction period, the Contract Manager, his representatives and site staff closely monitor the construction progress, hold regular site visits, site meetings and perform site supervision and inspection in order to assure that the contractor's performance meeting the quality standard and adhering to the works programme.

The HD has a systematic performance monitoring and reporting system underpinned by an objective Performance Assessment Scoring System (PASS) such that any non- performance is identified and mitigation measures would be implemented promptly.

For construction contracts, there is Liquidated Damages provision for delay for various sections of the works. In case there is delay to the construction works which the contractor is responsible for, the Contract Manager will impose Liquidated Damages which will be deducted from the payment due to the contractor.

Monitoring costs of construction projects

- (i) *when were the original and revised budgets for the three PRH projects, i.e. Kai Tak Development Site 1A (Phases 1 & 2), Ex-Cheung Sha Wan Police Quarters, and Heung Fan Liu Street, Shatin Area 4C, compiled, what were the construction cost yardsticks used during the time period concerned, and what caused the budgets for the three projects to be revised up and then down;*

The dates of approval for the original and revised budgets of the three PRH projects, and the bases and reasons of budget revisions were as follows -

**Kai Tak Development Site 1A (Phases 1 and 2)**

- **Original budget** (\$3,188.05M) approved by the Building Committee (BC) on 21 November 2008 - based on June 2008 Construction Cost Yardsticks (CCY) at Housing Authority Tender Price Index (HATPI) of 960 for 2Q/2008 and contract price fluctuation (CPF) allowance at 6% per annum
- **Revised budget 1** (\$3,199.22M) approved by the BC on 20 March 2009 - based on June 2008 CCY for addition of gatesets to flat entrance due to the change of HA policy
- **Revised budget 2** (\$2,373.62M) approved by the BC on 20 October 2009 - following approval of the June 2009 CCY at HATPI of 852 for 2Q/2009 and CPF allowance at 2% per annum after the financial tsunami in late 2008
- **Revised budget 3** (\$2,230.89M) approved by the BC on 6 September 2010 - after Tender Committee's (TC) approval of the award of building contract

- **Revised budget 4** (\$2,343.07M) approved by the BC on 9 October 2012 - due to increase in CPF mainly caused by the sharp increase in the costs of construction labour and some construction materials since the second half of 2011

### **Ex-Cheung Sha Wan Police Quarters**

- **Original budget** (\$861.38M) approved by the BC on 17 October 2008 - based on June 2008 CCY at HATPI of 960 for 2Q/2008 and CPF allowance at 6% per annum
- **Revised budget 1** (\$864.37M) approved by the BC on 20 March 2009 - based on June 2008 CCY for addition of gatesets to flat entrance due to the change of HA policy
- **Revised budget 2** (\$578.75M) approved by the BC on 20 October 2009 - following approval of the June 2009 CCY at HATPI of 852 for 2Q/2009 and CPF allowance at 2% per annum after the financial tsunami in late 2008
- **Revised budget 3** (\$564.46M) approved by the BC on 21 July 2010 - after TC approval of the award of building contract
- **Revised budget 4** (\$584.37M) approved by the BC on 9 October 2012 - due to increase in CPF mainly caused by the sharp increase in the costs of construction labour and some construction materials since the second half of 2011

### **Heung Fan Liu Street, Shatin Area 4C**

- **Original budget** (\$809.32M) approved by the BC on 19 September 2008 - based on June 2008 CCY at HATPI of 960 for 2Q/2008 and CPF allowance at 6% per annum
- **Revised budget 1** (\$811.90M) approved by the BC on 20 March 2009 - based on June 2008 CCY for addition of gatesets to flat entrance due to the change of HA policy
- **Revised budget 2** (\$581.79M) approved by the BC on 20 October 2009 - following approval of the June 2009 CCY at HATPI of 852 for 2Q/2009 and CPF allowance at 2% per annum after the financial tsunami in late 2008
- **Revised budget 3** (\$482.26M) approved by the BC on 21 July 2010 - after TC approval of the award of building contract
- **Revised budget 4** (\$491.31M) approved by the BC on 7 September 2011 - due to additional street shops and footbridge
- **Revised budget 5** (\$523.87M) approved by the BC on 9 October 2012 - due to increase in CPF mainly caused by the sharp increase in the costs of construction labour and some construction materials since the second half of 2011

- (j) *what measures would be taken to enhance the HD's system of budgeting and monitoring of project costs with a view to further improving the accuracy of budgeting for PRH construction projects;*

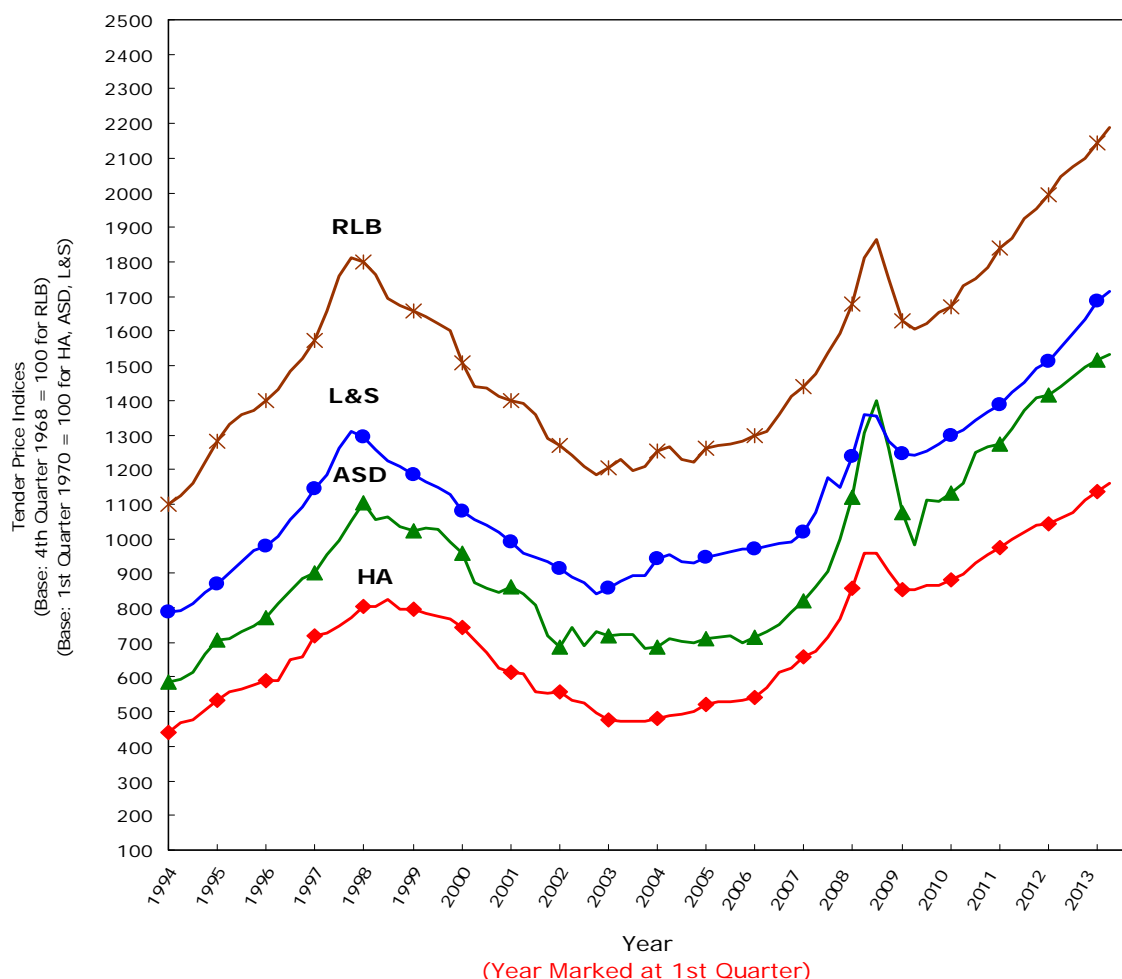
HA already has in place a proper budget preparation and approval process, and an effective budgetary control system. We have been enhancing the following aspects with a view to further improving the accuracy of budgeting for PRH construction projects-

- (i) closer monitoring of construction market cost trend in particular the cost movements of construction labour and materials;
- (ii) closer monitoring of construction cost at detailed design and tender stages against approved budget; and
- (iii) closer monitoring of design variations at construction stage against approved budget.

(k) *how are the Hong Kong Housing Authority's Tender Price Indices ("HATPI") compiled and how are the HATPI compared with similar indices used by other Government departments and the private sector;*

Housing Authority Tender Price Index (HATPI) is compiled for each quarter to provide an indication of the price level of tenders for new works building contracts returned in that quarter and accepted by HA.

Comparison of HATPI and the tender price indices of Architectural Services Department (ArchSD) and two major private quantity surveying consultant firms are as follows-



Remarks : HA = Housing Authority; ASD = Architectural Services Department; L&S = Langdon & Seah; RLB = Rider Levett Bucknall

## Annex (P.14 of 22)

Year	1968	1970	2003				2004				2005				2006				2007			
Quarter	4	1	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
HA		100	476	474	474	474	481	488	494	501	522	531	531	532	540	570	615	627	658	675	717	766
ASD		100	720	723	722	681	685	712	704	701	711	716	718	697	714	730	751	789	821	859	906	998
L&S		100	855	878	895	895	940	952	933	930	945	955	963	970	970	980	985	990	1020	1074	1175	1150
RLB	100	160	1205	1230	1195	1210	1255	1265	1230	1220	1260	1270	1275	1280	1300	1310	1360	1410	1440	1475	1535	1595

Year	1968	1970	2008				2009				2010				2011				2012			
Quarter	4	1	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
HA		100	858	960	960	904	852	852	864	864	881	899	929	952	976	997	1018	1039	1043	1059	1076	1110
ASD		100	1118	1305	1401	1262	1074	983	1111	1107	1134	1161	1249	1266	1273	1320	1369	1408	1414	1438	1467	1496
L&S		100	1239	1360	1355	1281	1245	1242	1253	1273	1297	1315	1342	1367	1385	1425	1452	1491	1511	1552	1595	1632
RLB	100	160	1680	1810	1865	1750	1630	1605	1620	1655	1670	1730	1750	1785	1840	1870	1925	1955	1995	2045	2075	2100

Year	1968	1970	2013																			
Quarter	4	1	1	2	3	4																
HA		100	1135	1161																		
ASD		100	1516	1532																		
L&S		100	1688	1713																		
RLB	100	160	2145	2190																		

Remarks : HA = Housing Authority; ASD = Architectural Services Department; L&S = Langdon & Seah; RLB = Rider Levett Bucknall

The above comparison reveals that HA's tender price trend for building works is similar to those of ArchSD and the private sector.

Further planning needed for the Comprehensive Structural Investigation ("CSI") Programme

- (l) how many HD staff are currently involved in the CSI Programme, and whether additional resources are required for the rest of the CSI Programme from 2005 to 2018 and for the next CSI Programme beyond 2018; if so, how much additional resources are required;*

A total of 38 staff is currently involved in the CSI Programme.

No additional resources are required for the rest of the CSI Programme from 2005 to 2018. We will keep in view the next CSI Programme beyond 2018 and assess the resource requirements in due course.



Build-back potential for the old estates

***(m) what is the way forward recommended for the 16 of the 26 estates with the CSI completed (paragraph 4.20 of the Audit Report refers);***

Of the 16 estates with the redevelopment potential assessment completed before the Refined Policy effective in November 2011, two estates (So Uk Estate and Tung Tau Estate Block 22) have been announced for clearance based on the earlier set of redevelopment criteria, i.e. structural conditions and beyond economic repair. And as set out in the 2014 Policy Address, Government decided to partially lift the development moratorium at Pok Fu Lam South to facilitate the use of the five government sites for public housing development as well as the redevelopment of Wah Fu Estate.

As for the remaining 13 retained estates, their preliminary review on redevelopment potential have also been completed in early 2014 as a starting point for detailed studies of selected aged estates in future. Please also see our answer in (n).

***(n) what is the timeframe to conduct a detailed review on the build-back potential of the 22 aged PRH estates with the CSI completed;***

Our policy on redevelopment is detailed in the Audit Report paragraphs 4.17 to 4.19.

We will not be redeveloping all 22 aged PRH estates in one go, nor have we decided to redevelop these estates in accordance with a firm timetable. We will consider redevelopment on an estate-by-estate basis.

We will be constrained by established policies and considerations in deciding how many estates we can redevelop at one time, and in considering whether an individual estate should be redeveloped. The determining factors such as availability of rehousing resources, development constraints and opportunities, etc. may change over time. We can only decide whether and when to redevelop estate-by-estate, taking into account the changing circumstances.

- (o) whether consideration would be given to not carrying out repair/strengthening works required to sustain aged PRH blocks/estates under the CSI for at least another 15 years across the board, so that the works required to sustain aged PRH blocks/estates under the CSI could be less than 15 years, and hence less costly, if these PRH blocks/estates had been identified for redevelopment in the next few years;*

For those blocks/estates identified for redevelopment in the next few years, repair and maintenance works including those concerning statutory compliance, safety and hygiene will be carried out to maintain them in satisfactory conditions until their clearance, instead of works for at least another 15 years.

- (p) what measures would be put in place to avoid the wastage of resources due to the completion of major improvement works shortly before the launching of redevelopment plan as illustrated in the case of Pak Tin Estate (paragraph 4.22 of the Audit Report refers);*

Since HA adopted the Refined Redevelopment Policy in 2011, there has been an established mechanism to enhance coordination within HD regarding the redevelopment programme of the aged estates and various maintenance and improvement programmes.

Better utilization of vacant sites and PRH Interim Housing ("IH") blocks

- (q) *what actions had been taken by the HD after demolition works were completed in the sites of Phases 3, 6 and 7 of Shek Kip Mei Estate (Appendix Q of the Audit Report refers);*

Although the demolition work of Phases 7 and 3 were completed in 2000 and 2008 respectively, building work has yet to start. Phases 3 and 7 are adjacent sites and were subject to a number of constraints. They were small in size, subject to a stringent height limit of only +30mPD under the Outline Zoning Plan (OZP) (maximum of only 5 to 6 storeys could be built), and were earmarked for cultural and heritage development. It was therefore considered that development as PRH should only proceed if these two sites were combined together and with the height limit restriction being relaxed. The HD then liaised with the PlanD to review the possibility of increasing the height limit and arrived at a proposal of relaxing the height limit to around +50mPD to +60mPD. The HD also liaised with other concerned government departments and local concerned groups trying to resolve all potential problems. In 2013, the HD put forward the public housing proposal of Phases 3 and 7 to the Sham Shui Po District Council and obtained their general agreement. At present, the HD is in active liaison with the PlanD on the amendment to the OZP.

For Phase 6, the demolition works were completed in 2008. In 2009, the HD put forward a proposal for PRH development to the Sham Shui Po District Council. DC members objected to the proposal and counter-proposed the HD to liaise with the Food and Health Bureau (FHB) to include the adjacent old existing Shek Kip Mei clinic building together with the PRH development. The HD then liaised with the FHB about this counter-proposal and co-ordinated the redevelopment plan of the clinic such that the PRH development could cope with the clinic redevelopment. Both parties worked together closely to resolve interface issues. In 2013, the HD put forward the proposal of Phase 6 to the Sham Shui Po District Council and obtained their general agreement. Planning application will be submitted to the Town Planning Board for minor relaxation

of building height to allow the development proposal to proceed.

- (r) *whether consideration would be given to making better use of the IH blocks and the Transit Centres referred to in paragraph 4.29 of the Audit Report; if not, why not.*

It is the Government policy that no one will be rendered homeless as a result of disaster or clearance operations. Persons affected by disasters and emergencies will be provided temporary accommodation at transit centres (TC) and thenceforth IH for those with genuine housing needs but not immediately eligible for allocation of PRH flats. We must therefore have sufficient vacant IH and TC units, at any time, and in assessing how many vacant units are sufficient, we believe we should err on the safe side.

Having said that, HD regularly reviews the provision of IH and TC, and will continue to do so. After the reviews in 2011 and 2013, we decided to retain Shek Lei IH and clear Long Bin IH in January 2016. The overall supply of IH has decreased substantially by 840 units with Long Bin IH frozen for letting to pave way for the clearance.

From an operational perspective, we need to maintain Shek Lei IH, the only IH in Extended-urban, to accommodate affected households of various emergencies occurred in Urban/Extended-urban areas despite the fact that our established policy is to rehouse them to TC and IH in New Territories. Over the years, Shek Lei IH has been used as temporary accommodation for affected households of various natural disasters and emergencies.