



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 9 May 2014 addressed to the Secretary for Transport and Housing on the subject issue and our reply dated 16 May 2014, I set out the Administration's bilingual response for questions no. d, e, i, j, k, o, p, q, r, s, t and u 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)

Supply of new PRH flats

- (d) *what measures would be taken by the Government to ensure that the setting of the new PRH production target at 200 000 flats in the coming 10 years from 2013-2014 to 2022-2023 as pledged in the 2014 Policy Address would not contravene Article 5 of the Basic Law;*

As Members noted at the hearings, Basic Law Article 5 stipulates among other things, that the previous capitalist system “shall remain unchanged for 50 years”. In considering this provision in relation to our current target of supplying 200 000 Public Rental Housing (PRH) units in 10 years, the following facts may be relevant.

Currently, PRH accounts for around 30% of total stock of permanent residential flats in Hong Kong. If the future develops in accordance with our current targets, after 10 years PRH units will increase from 766 000 to 966 000. But under our plan other flats will also increase from 1 850 000 to 2 120 000. PRH units will then account for 31%. It may also be relevant that in 1990, when the Basic Law was adopted, PRH units accounted for 40% of total stock of permanent residential flats.

- (e) *what is the estimated construction expenditure for the 200 000 flats in the 10-year period from 2013-2014 to 2022-2023, and how will such cost be financed;*

The HA's practice is to prepare budget and forecast covering rolling 5-year periods. Therefore, we have not prepared estimates showing expenditure for 10 years.

To assess the additional financial implication of the plan to produce 200 000 PRH flats in 10 years, a very rough approach could focus on the extra supply of 50 000 flats on top of the previous production level of 150 000 flats, and the cost of each such extra unit. Currently, a PRH unit costs on average around \$0.7M, but this may not be the cost for all units throughout 10 years, as it will be affected by factors like the site condition, the scale of development, the specific building design to overcome site constraint, price level changes, etc. Also, if one looks at the overall financial situation of the HA, the revenue from Commercial and Home Ownership Assistance Operations needs to be taken into account.

The 2014 Budget Speech says that “apart from adequate supply of land and manpower resources, we have to ensure that there will be sufficient funding for the HA as well. The HA must keep enhancing cost-effectiveness and sustainability of modus operandi in the long run.” The Budget Speech expects the HA to do an assessment on “additional financial resources needed for the next ten years after consolidating revenue increases and cost savings” so as to facilitate discussions with Government on a feasible long-term financial arrangement. We are proceeding accordingly.

PRH supply and demand forecast

- (i) *how is the 10-year baseline planned PRH production of 150 000 PRH flats from 2008-2009 to 2011-2012 (referred to in Table 4 in paragraph 2.16 of the Audit Report) arrived at;*
- (j) *what are the reasons for maintaining the 10-year baseline planned PRH production at 150 000 PRH flats from 2008-2009 to 2011-2012 despite the rising PRH demand forecasted during the same period (Table 4 in paragraph 2.16 of the Audit Report refers);*
- (k) *what are the wide range of factors referred to in paragraph 2.18(a) of the Audit Report;*

[Combined response to (i), (j) & (k)]

We do not have “ten-year baseline planned PRH production”. We regularly issue a five-year rolling Public Housing Construction Programme. In parallel, as an internal working tool, we keep track of production in the second five years. Production beyond the first five years is subject to a wide range of factors such as the planning process, consultations, land matters, funding procedures, infrastructures and site formation works, etc. Our internal programmes are therefore snapshots that are prone to changes as and when they are affected by circumstances not anticipated in the programmes. Before the Policy Addresses in the past two years which announced targets for ten-year PRH production, for a time we did not have fixed targets for PRH. The future PRH production was determined taking into account factors such as:

- (a) demand assessment for PRH;
- (b) availability of land, including whether the sites identified are suitable for PRH developments and whether they will be available in time;
- (c) competing uses of land, including land for private housing, other community uses, conservation, etc.; and

- (d) measures to manage PRH resources, such as well-off tenants policies.

In the 2013 Policy Address, the Chief Executive (CE) committed to build 75 000 PRH flats for the five-year period from 2012-13 to 2016-17, and that the production target should be at least 100 000 PRH flats for the five-year period from 2018 onwards. The HD has since strived to advance the production of about 4 000 PRH flats to 2016-17, increasing the total PRH production target for the first five-year period from 2012-13 to 79 000 flats. In his 2014 Policy Address, the CE further announced that the housing supply target of a total of 470 000 units in the coming ten years would be adopted, with public housing accounting for 60%. To meet this new target, the Government aims to provide an average of about 20 000 PRH units and about 8 000 Home Ownership Scheme (HOS) units per year.

Meeting the pledged production targets

- (o) *what are the roles and responsibilities of the Committee on Housing Development, Steering Committee on Land Supply, and Committee on Planning and Land Development in meeting the pledged PRH production target as stated in the 2014 Policy Address;*

In order to achieve the then housing production target of 85,000 flats a year, the Steering Committee on Land Supply for Housing (HOUSCOM) chaired by the Financial Secretary was set up in 1997. It had a mandate of “making more land available for residential development to meet the housing needs of the community”. At the same time, to underpin HOUSCOM, the Housing Project Action Team (HPAT) chaired by the then Secretary for Housing was set up for the same purpose. The HOUSCOM and HPAT ceased operation in 2002 when the Government repositioned its housing policy. The Committee on Housing Policy (CHP)¹ and Committee on Housing Development (CHD) were then set up to monitor timely provision of residential land for both public and private housing.

Under the existing mechanism, the CHD chaired by the Permanent Secretary for Transport and Housing (Housing) cum Director of Housing, is responsible for assessing the housing demand, monitoring the timely supply of suitable land for public housing development to meet the anticipated demand, as well as the implementation of the public housing development programme to meet the housing supply targets set by the Government subject to timely availability of land.

The Committee on Planning and Land Development (CPLD), chaired by the Secretary for Development, coordinates land use planning and land development matters, including planning and allocation of land for various uses including residential uses, and makes decisions on development proposals and development parameters of individual sites.

¹ Since July 2007, following the reorganization of the Government Secretariat, housing issues and planning and land issues have been overseen separately and respectively under Secretary for Transport and Housing and Secretary for Development. Under the new set up, the CHP ceased to operate and the long-term housing demand (both public and private) was subsequently monitored and endorsed by the new CHD which also monitored the land supply for public housing.

In 2010, on top of CHD and CPLD, the then Steering Committee on Housing Land Supply (SCHLS) was set up to coordinate the efforts of the various policy bureaux and government departments concerned on increasing housing land supply. SCHLS has been re-organised into the Steering Committee on Land Supply (SCLS) since February 2013, with its scope of work expanded to coordinate the overall plans for development and supply of land for different types of land uses including housing as well as commercial uses.

With the announcement of the new housing supply target in 2014 Policy Address, SCLS will continue to co-ordinate the efforts of B/Ds to increase land supply for housing with a view to meeting the target. With the involvement of relevant policy secretaries and heads of departments, SCLS provides a forum for resolving inter-bureau and inter-departmental issues affecting the availability of individual housing sites, such as infrastructure provision, and has been coordinating the overall land supply.

Land supply and site production for development

- (p) why 38 hectares of land are needed for the PRH production target of about 200 000 PRH flats for the next 10 years, whereas only 16 hectares of land are needed for the production target of 180 000 PRH flats (paragraph 2.46 of the Audit Report refers);***

On Audit's figure of 16 hectares, we suspect Audit might have got it from our internal paper in October 2013 which indicated an additional 16 hectares of land was required to meet the production target of 180 000 PRH flats. We had no document showing that 38 hectares of land was required to meet the production target of 200 000 PRH flats. We suspect that Audit might have seen our usual assumption used for planning purpose that one hectare would produce around 1 000 PRH flats and estimated that the additional land required to increase the production target by 20 000 flats (from 180 000 to 200 000 PRH flats) would require an additional 22 hectares of land. Adding 22 to 16 would give 38 hectares.

The shortfall in land requirement for the 200 000 PRH units was reported to the Legislative Council Panel on Development and Panel on Housing Joint Meeting on Increasing Housing Land Supply (Paper Number: CB(1) 781/13-14(01)) in January 2014. As reported in the paper, the Government had identified land to produce 179 000 PRH flats for the 10-year period from 2012/13 to 2021/22. To meet the new target of 200 000 PRH flats, work was underway to identify additional land. Some 150 potential housing sites had been identified and assessed to have potential for rezoning and made available for housing development in the coming five years (from 2014-15 to 2018-19) to provide over 210 000 flats.

- (q) what measures had been/would be taken by the relevant B/Ds to expedite the inclusion of the sites earmarked for public housing in the HD's Public Housing Construction Programme/Public Housing Development Forecast referred to in paragraph 2.47 of the Audit Report;***

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

Public housing sites returned to the Government

- (r) *what are the policies on the return of PRH redevelopment sites to the Government; and what is the mechanism for returning such sites to the Government;*

In view of the new production target, the Government is working very hard to secure adequate land supply for public housing. Under such circumstances, we have no plan to return PRH redevelopment sites to the Government.

There is an internal coordinating mechanism in the Government which operates through the Steering Committee on Land Supply, the Committee on Planning and Land Development and the Committee on Housing Development that together co-ordinate plans for development and supply of land for different types of land use.

- (s) *what are the reasons for returning the three PRH redevelopment sites to the Government during the current-term Government; and what are the location, size and intended use of the sites involved;*

We understand the question is about the Ex-Homantin redevelopment sites.

Ex-Homantin redevelopment sites (mentioned in Case 4 of the Audit Report) Phases 2, 3, 5, 6 and 7 were grouped into 3 sites: Phases 2 and 7 as Site I (Net Site Area being 20,810 sq.m.), Phase 6 and part of Phase 3 as Site II (7,191sq.m.), and Phase 5 and part of Phase 3 as Site III (5,960 sq.m.).

These three sites were agreed to be returned to the Government in 2005 after the announcement of the Housing Policy Statement in 2002 subject to the availability of replacement sites. Since then they have been in the Government's total stock of sites, and considered together with all other sites against the many demands for land that the Government has to meet. Sites I and II were considered suitable for private residential use. As a matter of fact, there has always been a need to provide the market with steady land supply for private housing to ensure healthy development of the property market. Sites I and II were included in the 2011-12 Land Sale Programme in February 2011 pursuant to the 2010/11 Policy Address. They were made available for sale by application in November 2011 after the Lands Department had finalized the sale conditions, and successfully tendered in March 2013 and June 2013 respectively through government-initiated sale. Site III was earmarked for Government, Institution or Community use. The current-term Government similarly has to determine how to use each site in the best way to meet demands for community uses, conservation, private housing, public housing etc. While the three sites have been used for other purposes, the Government has allocated many sites to the HA for public housing development, including for example major sites such as Queen's Hill, Tai Po Area 9, Shek Mun, Lai Chi Kok Road-Tonkin Street and Kai Lung Wan in Pokfulam, etc.

- (t) whether the Government had conducted any impact assessments before the return decision was made; if not, why not; and*

Please refer to the Development Bureau's reply to question (d) of Public Accounts Committee's letter ref. CB(4)/PAC/R62 dated 9 May 2014 to Development Bureau.

Development costs written off

- (u) *why the development costs for the sites returned to the Government referred to in paragraph 2.62 of the Audit Report were not borne by the Government.*

The Government usually allocates sites to HA under two types of agreements - Vesting Order (VO) or Short Term Tenancy (STT). For ex-Homantin Estate, HA was vested the control and management of the relevant premises under a VO. For Inverness Road, HA was allocated the site under a STT to carry out site formation and road works. Under both types of agreement, there are no provisions for compensation to be paid to HA upon their revocation.

For the remaining four sites, namely Welfare Road Aberdeen, Wong Tai Sin Police Quarters, Tseung Kwan O Area 74 South Phases 1 & 2, and Sha Tau Kok Road Fanling, the Government had not allocated the sites to HA for public housing construction. They had been earmarked for HA to carry out preliminary studies or other preparations. As there was no agreement between Government and HA, HA had no basis to seek reimbursement of development costs.