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(91) in LDC SMOHQ 13/4/4/7

20 April 2001

Mr KOO Tak-ming
Chairman
Association of Government Local Land Surveyors

Dear Mr Koo,

I refer to your letter of 24 March 2001 setting out your Association's views on the proposed corporatisation of the SMO.

I regret to note the misgivings of your Association on the Administration's proposal for the corporatisation of SMO released on 13 February 2001. It appears that there are some misunderstandings on the basis on which the revenue forecast of the Survey and Mapping Corporation (SMC) was made, and how SMC can raise revenue from GIS and GPS-based new business opportunities.

It must be stressed that the Administration's proposal is all based on genuine, independent and objective analyses, and the financial projections have been worked out on the basis of prudent and conservative estimates.

We have carefully considered the comments and suggestions made in your letter of 24 March. The response of the Administration is set out in the **Annex**.

We appreciate that your Association might have different views on the proposal. We are keen to have a dialogue with your Association to exchange views, seek common ground and reconcile our differences in opinion in taking forward the corporatisation of the SMO.

I look forward to meeting your Association to discuss the matter.

Yours sincerely,

(R.D. Pope)
Director of Lands

- c.c. President and Members of the Legislative Council
Chief Secretary for Administration (Attn : AA/CS)
Financial Secretary (Attn : AA/FS)
Secretary for the Civil Service (Attn : Miss Angelina Fung)
Secretary for Planning and Lands (Attn : Mr Gary Yeung)
Head, Efficiency Unit (Attn : Mr Steve Barclay)

Response to the Association of Government Local Land Surveyors' letter to the Director of Lands dated 24 March 2001

The Association of Government Local Land Surveyors (AGLLS) presented a letter to the Director of Lands on 24 March 2001 giving their views on the proposed corporatisation of the Survey and Mapping Office (SMO). The Administration has considered their views and its response is set out below.

**Business opportunities
(para. 1.1 to 5.2)**

2. We are grateful for the views of AGLLS on the market potential and applicability of various new business opportunities. We agree that the revenue forecast for these new activities should be realistic and prudent. As we have explained in the Administration's proposal released on 13 February 2001, we have adopted a prudent and conservative approach in projecting the forecast revenue.

3. Projected commercial revenue related to Wireless Application Protocol (WAP) and Web, in-car navigation, Global Positioning System (GPS) and location-fixing applications would mainly be derived from the sale of the digital map base which is required to support these applications. The projected income from these possible applications is based on an independent market research, and conservative estimate of the potential market share that the Survey and Mapping Corporation (SMC) might be able to take up. The role of SMC will mainly be the provider of the digital map base and we do not expect the SMC to invest in the development of technical infrastructure for these applications. Where opportunities arise, the SMC may assist in the development of the customised map-related data.

4. There are also emerging demands for Geographic Information System (GIS)-based applications both within the Government and the private sector. These have been widely used overseas and locally. CED, HyD, DSD, Plan D, TD and WSD are developing their respective GISs. Digital map bases and customised data are required to support these applications. We are confident that the SMC will have the necessary expertise to offer consultancy advice on, and if required to develop, customised GIS-based applications for use by the Government, public sector organisations and

private sector companies. Given the experience and expertise of SMO in the development of GIS, we believe the SMC will have a competitive edge over other service providers.

5. We are aware that there are some current limitations of GPS in location-fixing in the built-up areas. We are confident that these technical constraints can be overcome. In this regard, AGLLS is probably aware that the Fire Services Department has just awarded a \$445 million contract to set up a new communication and mobilising system in the Fire Services Communication Centre. This is a GIS and GPS-based command and control system for the efficient mobilisation of fire and ambulance resources to scenes of emergencies. AGLLS might also be aware that Government Supplies Department has introduced a GPS-based system to direct and monitor its vehicle fleet. This demonstrates the applicability of GPS for location-fixing even in the built-up areas.

6. In a nutshell, increased GIS-based and location-fixing applications would generate greater demand for our digital map base and would bring about additional revenue for the SMC.

7. As regards aerial photographs, there are increasing demands from Government departments and the public. We expect that there would be a steady growth of demand for aerial photos as well as 3-dimension digital terrain models where there are increasing applications for various planning, engineering design and presentation purposes.

Intellectual property (para. 6.1)

8. We are aware that SMC's revenue will depend on its ability to preserve its ownership of the core data, including on-selling of the data through SMC's business partners. We will put in place necessary and effective measures to assume proper control over such data usage to protect SMC's interest.

9. The Copyright Ordinance and the Intellectual Property (Miscellaneous Amendments) Ordinance 2000 operative on 1 April 2001 provide effective tools to combat corporate copyright piracy. Protection of copyright of the Government and SMC data is an important area that the

SMC will need to look into as explained in Page 46 of the Administration's proposal. Where circumstances require, the SMC may allocate more resources to prevent unauthorised use of its data. There are a wide range of civil and criminal legal remedies available to protect SMC's interests.

Limitations of SMO as a vote-funded department

(para. 7.1 to 7.3)

10. There are tremendous constraints for SMO, as a Government department, to respond flexibly and in a timely manner to changing market demands for its products and services. Long lead times for decision making and legal constraints on establishing private sector partnerships, and investment limitations owing to competitive bids for resources are the key constraints.

11. While we can streamline certain rules and procedures to improve efficiency, SMO as a Government department, is still subject to the rules and regulations that are applicable service-wide. Because of these constraints, it will not be possible to respond to the changing market demands and to develop new services for new customers at the speed required by the market and spatial data applications. This has stifled the effective exploitation of our valuable digital map base. SMC, as a public corporation, will have the full flexibility and speed in terms of decision-making, manpower deployment and allocation of resources to cater to the changing demands of the market and the community.

12. As part of the Lands Department, SMO has to compete for resources both within the department and with other departments. It is common that those programmes that have direct impact on livelihood will be accorded a higher priority in the allocation of resources. The rather inflexible procedures involved in the personnel recruitment and resource allocation systems and the lengthy timeframes involved are not conducive to rapid responses to market needs. Hence, the hands of the SMO are tied if we want to invest in projects and activities that are important to the SMO but do not have a high priority on the overall Government programme.

13. There is no foundation for the assertion that the standard of survey and mapping services would be affected in future as SMC would need

to maintain its business and maximise profits. We have stressed on many occasions that the prime objectives of corporatising the SMO are to enable us to make use of the business opportunities available by our digital map base to meet growing demand for such products and services, and as a result to provide better survey and mapping services to the community. While the SMC will operate on prudent commercial principles, it will need to strike the right balance between profit attainment and service quality, satisfying the needs of the various sectors of the community, and the overall public interest. In no circumstances would the standard of service be compromised.

Staff reactions

(para. 8.1 to 8.4)

14. It is only natural that staff may need time to consider the proposed option arrangements. Some staff may be interested in taking voluntary retirement, some may wish to join the SMC upon voluntary retirement and others may prefer to retain their civil servant status having regard to their individual circumstances. We expect that staff will make use of the proposed two-year option period to consider the matter.

15. We very much hope to have the support of staff in taking forward the corporatisation proposal. We would like to encourage as many staff as possible to join the SMC on its terms of employment. However, we are well aware that there is bound to be a mixed-staff situation in the SMC as we are transforming an existing Government department into a public corporation. But we will put in place necessary measures to ensure that this would not present any insurmountable management problems that might affect the efficient operation of the SMC. We will also ensure that staff who opt to retain their civil servant status would have equitable opportunities for further advancement as their counterparts who join SMC on corporation terms.

Financial plans

(para. 9.1 to 9.5)

16. We understand that AGLLS is concerned whether the SMC will have sufficient revenue to support its operation, and the extent of Government's commitment to the procurement of services from SMC in

future. Government has committed to the provision of survey and mapping services to the community which are essential public services. It has been agreed by the Administration that Government will procure all existing survey and mapping services provided by the SMO from the SMC under a service level agreement (SLA) in future. This is a long-term agreement between Government and the SMC subject to review at regular intervals. Also, in the draft bill for the setting up of the SMC there are provisions for the corporation to provide all existing survey and mapping services undertaken by the SMO to Government under agreement(s).

17. Revenue from the SLA, which will be a very secure source of income based on the current full operating cost of the SMO, will be able to support the baseline operation of the SMC. In our view, this is the best safeguard that can be put in place by Government to ensure the business viability of SMC. Other revenue from GIS consultancy services and new businesses will bring about financial benefits to Government and the SMC. The community at large will also benefit from the provision of better services.

18. The forecast revenue from new projects and as explained in Director of Lands's letter to AGLLS of 21 March, is mainly on a cost-recovery basis. These are mainly Government infrastructure projects for which the SMC will provide survey and mapping services mainly to the Lands Department for the purpose of land resumption. These entail updating of existing map sheets, providing land status information, preparation of draft land resumption plans and setting out of land resumption limits.

19. In the event that the new projects do not materialise within the envisaged time-frame, the impact on revenue would only be minimal. In such circumstances, the SMC's operating expenditure would also be reduced correspondingly as the SMC would not need to engage additional short-term staff to support these projects. Therefore, even if these projects cannot be materialised, it would not pose financial risks that would jeopardise the business viability of the SMC.

20. It is not appropriate to include work for new projects under the current SLA as they are subject to approval. It is not possible at this stage to agree with the Government on their cost as both the implementation timetable

and project details are not available.

**Legislation and related matters
(para. 10.1 to 10.6)**

21. In July last year we informed AGLLS of the ambit and major provisions that we intend to cover in the draft bill. We will let the Association have further details once drafting work for the bill has been finalised. We certainly welcome any views that AGLLS may have on the draft bill.

22. As regards the Association's concern on potential conflict of interest for the SMC in assisting the Land Survey Authority for administering the Land Survey Ordinance, we have already clarified the position in the Administration's response to the LegCo Panel on Planning, Lands and Works dated 23 March 2001 (para. 14 to 16 of Annex A).

23. In respect of the co-ordination of spatial data, this is indeed a complex issue and the Administration will need more time to look into the matter before we can come up with any specific recommendations. We are therefore unable to give any details at this stage. Hence, we have not taken into account possible revenue from this in the financial plans.

**Contingency
(para. 11.1 to 11.2)**

24. It is the considered view of the Administration that there is a strong case for corporatising SMO. The decision to proceed with the corporatisation of the SMO is made by the Administration having taken into full consideration of all relevant factors. Government is committed to the provision of survey and mapping services by means of the SMC in future. The SMC, although a public corporation, will be fully owned by Government through its shareholding. The Government will ensure that these services are delivered efficiently and effectively.

25. The situation of Ordnance Survey and Terralink which your Association quoted have different business scopes and financial arrangements than ours. It is not appropriate to draw a direct comparison on these aspects with them.

Conclusion

(para. 12.1 to 12.8)

26. Director of Lands's letter dated 21 March 2001 copied to all staff side members of the Lands Department Departmental Consultative Committee clarified that it is **not** the intent of the Administration to corporatise the SMO for the purpose of containing the size of the civil service. Under the corporatisation proposal, the transfer of staff to corporation terms will reduce the size of the civil service. This is just a natural consequence and should not be construed an objective of the corporatisation exercise. Indeed, this is consistent with what the Secretary for the Civil Service wrote in the press article in the Hong Kong Economic Journal on 14 March 2001.

27. The Secretary for the Civil Service's article was written in response to criticisms against the Government for being overstaffed and overpaid. Nowhere in the article has it been stated that reduction of the civil service establishment was a purpose for corporatisation of SMO.

28. We firmly believe that the corporatisation proposal is viable both practically and financially. We hope that we can work together with all SMO staff associations to take forward the proposal.