

Legislative Council Panel on Planning, Lands and Works

Corporatisation of the Survey and Mapping Office of the Lands Department

Introduction

At the meeting of the Legislative Council Panel on Planning, Lands and Works on 5 March 2001, Members raised a number of issues related to the corporatisation of Survey and Mapping Office (SMO) on which the Administration agreed to consider and to provide further information.

2. Staff associations of SMO have also put forth their views on the corporatisation of SMO to the Panel. These include :-

- (a) a letter dated 28 February 2001 from the Association of Government Local Land Surveyors; and
- (b) a letter dated 2 March 2001 jointly from the Association of Government Land and Engineering Surveying Officers, the Association of Government Cartographic Staff, the Association of Government Technical and Survey Officers, the Government Chainmen Union and the Lands Department Drivers' Union.

Response to issues raised

3. The Administration has carefully considered all the points raised by Members and staff associations. Our response is set out in the following :-

- Annex A** – Response to the issues raised by Members of the Legislative Council on Planning, Lands and Works;
- Annex B** – Response to the issues raised by the Association of Government Local Land Surveyors; and
- Annex C** – Response to the issues raised by the Association of Government Land and Engineering Surveying Officers and four other staff associations.

**Planning and Lands Bureau
Efficiency Unit
Lands Department**

March 2001

Issues raised by Members of the Legislative Council Panel on Planning Lands and Works on 5 March 2001

(1) Future options for SMO : Trading Fund or Corporatisation

The Administration's view on why corporatisation is a better option than conversion to a trading fund for the SMO is set out below.

(a) Trading Funds

2. The Trading Funds Ordinance (TFO) (Cap. 430) came into effect in March 1993. Under the TFO the Legislative Council may, by resolution, establish a trading fund to manage and account for the operation of a government service provided to the Government, public bodies or persons other than the Government. The Legislative Council resolution prescribes the services to be provided by the trading fund.

3. A trading fund is not a separate legal entity but an accounting and management arrangement. It is required, taking one year with another, to cover its expenditure by its revenue and to achieve a reasonable return on the fixed assets employed. This arrangement gives the general manager of the fund some flexibility in the deployment of resources (through not being subject to annual appropriations) whilst providing greater transparency and accountability through the publication of an annual report and accounts. An indication of the success of trading funds has been the significant levels of efficiency savings they have reported under the enhanced productivity programme.

b) Corporations

4. A public corporation, although a separate legal entity, is also established by legislation to carry out specified activities. It remains a part of Government through the Government's shareholding. Its transparency and accountability are also maintained through the publication of its annual report and accounts.

5. A corporation, however, has even greater flexibility than a trading fund. Its separate legal status allows it to enter into a greater variety of contracts - with customers, contractors and staff. This enables it to be more agile in maximising its value to taxpayers and developing new services for new customers. Working within its legislative remit, its management can without seeking approval beyond its own board:

- enter into business partnerships and joint ventures;
- invest in research and development;
- provide greater rewards to staff; and
- rapidly redirect resources to meet demand.

c) The Survey and Mapping Office

6. The current status of the SMO does not allow it to respond effectively to many of the commercial opportunities that are becoming available in newer areas such as digital mapping, or global positioning. Trading fund status would give the SMO more flexibility to enhance its business with the rest of the civil service, and to make some efficiency improvements, but would not, give the flexibility needed to exploit commercial opportunities in both government and non-government sectors. The latter, which is where most of the potential lies, requires the contractual powers of a separate legal entity such as a corporation.

d) Conclusion

7. The corporatisation option provides the best solution for the SMO to optimize its potential in the coming years. Failure to take this opportunity will deprive the community of many benefits that neither the present SMO, a SMO trading fund nor private sector surveyors are as well-positioned to provide.

(2) *Different financial projections*

8. The costing approach adopted for the 1999 feasibility study was different from the current business plan. The feasibility study was based on a high level approach and used broad-brushed estimates. At that time, detailed arrangements as regards staff and mode of service delivery had not been mapped out. It was therefore not possible to have detailed financial projections. For revenue from Government, the feasibility study took into account the various products and direct services provided to departments but not the full cost of the services of basic mapping, maintenance of land boundary records, and other supporting services which were assumed to be borne by the corporation.

9. In taking forward the corporatisation proposal, it has been agreed that Government will enter into a service level agreement (SLA) with the corporation embracing all existing services provided by the SMO that will be performed by the SMC in future. The scope of services and their full cost under the service level agreement have now been worked out.

10. The financial projections for the current business plan are made on the above basis. Apart from products and services to departments, the agreement also covers the full cost of those services mentioned in paragraph 8 above as well as all services provided by our seconded professional and technical staff.

11. The above accounts for the different revenue forecasts. Detail of the revenue projections for SLA income is set out below.

Comparison of SLA Revenue

	Year 1 SLA Cost	Remarks
(1) 1999 Feasibility Study	\$612 M	<ul style="list-style-type: none"> ● Based on 1998/99 full SMO operating costs. ● <u>Exclude services for basic mapping, maintenance of land boundary records, , other supporting services and seconded technical staff.</u>

	Year 1 SLA Cost	Remarks
(2) 2001 Business Plan	\$805 M	<ul style="list-style-type: none"> ● Based on the projected 2000/01 full SMO operating costs. ● <u>Include all existing SMO services and all seconded professional and technical staff.</u>
	(2) – (1) = \$193 M	\$ 92 M for seconded technical staff ; \$ 101 M for services excluded under (1) and other adjustments.

(3) *Consultants advice*

12. In drawing up details of the proposal for corporatisation of SMO, we have sought assistance from the following consultants :-

- (a) PE-Handley Walker (HK) Ltd and Land Info / Sinclair Knight Merz Pty Ltd – business plan and market research ; and

- (b) Watson Wyatt (HK) Ltd – SMC staff employment package

13. They have produced working documents for consideration by the Administration.

(4) Conflict of interest in supporting the Land Survey Authority

14. Under the Land Survey Ordinance (Cap. 473), the work of authorised land surveyors in the private sector are confined to carrying out land boundary survey. They undertake such work in accordance with the requirements of the codes of practice issued under the Ordinance. These codes of practice are approved by the Land Survey Authority (i.e. the Director of Lands), in consultation with the Hong Kong Institute of Surveyors. They provide practical instructions or guidance in respect of land boundary survey and related matters.

15. Authorised land surveyors, when carrying out land subdivision work under section 30 of the Ordinance, have to deposit with the Authority the land boundary plan and the survey record plan. The Authority inspects these plans and documents for compliance with the approved codes of practice. Authorised land surveyors are personally responsible for the accuracy and completeness of the land boundary plan certified by them. The Authority is not empowered to determine land boundaries.

16. Upon setting up of the proposed Survey and Mapping Corporation, the Director of Lands will continue to be the Land Survey Authority while the corporation will provide appropriate professional and technical advice to him to facilitate the discharge of his functions under the Ordinance. In administering the Land Survey Ordinance, the Authority will ensure that it will perform its functions effectively, and will act in a fair and impartial manner.

(5) *Unfair competition*

17. At present, SMO does not engage in land boundary survey for private land. In future the SMC will perform all existing work of SMO and will take on new activities mainly those relating to digital map and location-based applications. It will not compete with the private land surveyors for land boundary survey work. As regards access to spatial data, all these data collated and maintained by SMC are available to authorised land surveyors and the public at prescribed fees. They will have full access to this data.

(6) *Business viability*

18. On the concern that future competition from the industry might drive SMC out of business, we are confident that the SMC will have the full capability to provide the survey and mapping services up to the standards required by the Government, and continue to maintain a competitive-edge over potential competitors. The Government needs the SMC to provide reliable and efficient survey and mapping services to supports its activities in various programme areas under a SLA. This will provide a secure major source of revenue for SMC to support its operations.

(7) *Staffing arrangements – ‘Abolition of Office’ option*

19. In the case of SMO, we consider it appropriate to give staff the option to retire voluntarily and join the SMC if they are so interested, or retain their civil servant status. We therefore do not propose to offer ‘Abolition of Office’ terms to these SMO staff as this will deprive them of the option to remain in the civil service. Under the proposed SMO Voluntary Retirement (VR) Scheme, a special VR payment will be given to staff opting to retire voluntarily in addition to the lump sum commuted pension gratuity upon voluntary retirement. We believe this compensation offer is fair and reasonable.

20. Civil servants who choose to retain their civil servant status will be seconded to the SMC. A civil service establishment will be created to accommodate these civil servants until they leave the service. We will put in place necessary measures to ensure that they will have equitable opportunities for promotion as SMC staff. For those who are selected for promotion, they will continue to remain on the civil service establishment in the rank to which they are promoted, and they will progress along the civil service pay scale for that rank. Once the details have been worked out, we will seek necessary approval from the Establishment Sub-committee and the Finance Committee for setting up a civil service establishment to accommodate civil servants working in the SMC.

(8) *Indiscriminate use of SMC's data by business partners*

21. The end market for SMC's products and services, particularly in the area of digital mapping data, is growing substantially. 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 the interest of the corporation.

**Issues raised by the Association of Government Local Land Surveyors
(letter dated 28 February 2001)**

(1) *‘Lack of staff support for corporatisation’*

We consider that the proposed option arrangements for staff are reasonable and fair. We believe that the proposed remuneration package for corporation staff and the special conversion arrangements for SMO staff are reasonable offers to staff. Staff may need time to consider the proposal having regard to their own circumstances before they can take a view and we have therefore proposed a two-year option period. As regards the opinion poll carried out by the Association, it is recognised that staff would prefer to retain the status quo but it is encouraging to note that over 10 % of the respondents have already indicated their wish to join the corporation on its terms of employment. We expect that it would be a gradual process for staff to take up the job offer over the two-year option period.

(2) *‘Financial projections of the business plan are lacking a substantiating basis’*

2. The business plan that we have mapped out is based on prudent and conservative revenue estimates. We have critically reviewed our baseline operation. We have also looked into the business prospects of the survey and mapping industry with the assistance of the marketing and research professionals. Projected income from the service level agreement is based on the existing full operating cost of SMO. Forecast commercial and other revenue is based on planned new infrastructural projects, and very conservative revenue estimates of new geographic information system and location-fixing applications which have emerging demands.

(3) 'No pressing need for improvement to service quality and efficiency'

3. We recognise that existing SMO services are of a high standard. However, there are tremendous constraints for SMO, as a Government department, to respond flexibly and timely to the changing market demands for its products and services. This has hampered the provision of better services, and prevented SMO from maximising its market potential and reaping the benefits likely to be brought about by corporatisation. There are a host of tasks that have to be done to take the matter further. These include, inter-alia, the setting of detailed performance standards and measurements and other operational planning issues.

(4) 'SMC operating on prudent commercial principles will compromise the standard of services and its performance will not be monitored'

4. There will be dedicated legislation for the setting up of the proposed Survey and Mapping Corporation. The corporation will be governed by a Board of Directors comprising such non-officials and public officers as may be appointed by the Financial Secretary. There will be provisions in the draft legislation requiring the SMC to submit annual accounts to the Financial Secretary. The audited statement of accounts and auditor's report will need to be tabled in the Legislative Council. Also, under the Service Level Agreement with Government, specific performance measures and standards will be set. We will ensure that the corporation delivers its services according to the objects and functions as provided under the proposed legislation, and also up to the required standards of the Government.

5. While the corporation will operate on prudent commercial principles, our overall objective is to provide better services, and better utilisation of the valuable digital map assets for the benefit of the community. We will 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.

(5) *'Too hasty legislative process'*

6. We have set out the intended timeframe for legislation in response to questions from LegCo Members and staff. This will depend on the progress of the drafting of the bill and when all relevant issues can be fully addressed.

(6) *'Lack of staff consultation in the drawing up of the detailed proposal'*

7. Over the past year, we have held regular and ad-hoc meetings with staff associations. The views we gathered are that they are very concerned about the case for corporatisation, business viability, job security, employment terms and career advancement. The proposal that we have now drawn up has taken into full account of these concerns, and will be a basis for further staff consultation.

Issues raised by the five technical and support grades staff associations of SMO in their letter to the Legislative Council Members dated 2 March 2001

(1) *'Service Level Agreement (SLA) cost exceeds the existing operating cost of SMO'*

The agreed cost of SLA for year 1 is based on the projected full operating cost of SMO in 2000/01 (to be updated by the close of the 2000/01 financial year), including the cost of all professional and technical staff currently on secondment to other departments. Whereas, the 1999 feasibility study adopted a high level approach based on the operating cost of SMO in 1998/99 and included only seconded professional staff (seconded technical staff were excluded) and part of the cost of those services set out in paragraph 8 of Annex A.

(2) *'Exaggerated revenue'*

2. As explained in paragraphs 8 to 11 of **Annex A**.

(3) *'Discrepancies in profit and loss projections'*

3. For the current business plan, the SLA cost for year 1 as agreed within the Administration is \$101 M more than the estimated revenue from Government as projected under the 1999 feasibility study for the reason as explained in (1) and (2) above. This together with other adjustments result in an operating surplus of \$22 M under the current business plan instead of a deficit of \$83 M under the 1999 feasibility study.

(4) *'Great discrepancies in the value of fixed assets'*

4. In the 1999 feasibility study, it was assumed that the Government would appropriate all existing assets including office accommodation occupied by SMO as assets of the corporation amounting to \$550 M. We have further looked into the proposed arrangements. In view of the complexities involved in the management and disposal of these appropriated premises, it is now considered more appropriate for Government to lease the premises to SMC. The office accommodation rental has been fully costed under the SLA. Under the current business plan, fixed assets to be appropriated to the corporation will therefore include only computer systems, equipment and office furniture. This accounts for the different value of the fixed assets.

(5) *'SMC relying too heavily on SLA income'*

5. Survey and mapping are essential public services that Government has committed to provide for the community. Government will procure the required services from the SMC through the SLA. Income from SLA will provide a secure revenue source for the corporation to sustain and develop its businesses, particularly in its initial years of operation. We do not see any risk in having a steady source of revenue from Government through SLA. Rather, this testifies Government's commitment for the provision of these essential public services.

(6) *'Unreliable assumptions without valid basis'*

6. Basically the service level agreement is a long-term agreement setting out details of the survey and mapping services to be provided by SMC to Government. It will be reviewed at regular interval to see if any revisions are required to reflect any changes in the cost structure and operating environment. This will be in the mutual interest of both the corporation and Government.

7. Revenue from SLA and new projects will basically be able to meet the full expenditure of SMC over the planning period. Other revenue from GIS consultancy services and new commercial businesses will bring about financial benefits to Government and the corporation. The community at large will also benefit from the provision of better services.

(7) *‘Conclusion – ‘Corporatisation of SMO is not viable’*

8. We are confident of the viability of the corporation and its future business growth. We have not assumed any reduction in staff level in the business plan. Government has the responsibility to provide survey and mapping services to the community at all times. Therefore, we do not see any likelihood of not requiring the services of SMC staff.

9. Additional expenditure incurred for engagement of new staff is minimal. Financial management and human resources management work are at present provided by the Departmental Administration Office of the Lands Department. The SMC will need to provide these services by itself in future. The cost entailed have mostly been reflected in the full SMO operating cost. In addition, some other new staff are required for marketing, research and development, and strengthening existing professional and technical support. This is essential human resources investment to support the operation of the corporation and its future development.

10. We do not agree with the allegation that the need for SMC to operate on prudent commercial principles will compromise the standards of service and will be at the expense of ‘non-profit making’ services. We must reiterate that we will strike the right balance between profit attainment and service quality, satisfying the need of the various sectors of the community, and the overall public interest. Government will continue to provide all the existing SMO services through the SMC in future under the SLA.

11. As regards the concern over potential conflict of interest and indiscriminate use of SMC's data, we have already addressed the matters in paragraphs 14 to 16 and 21 of **Annex A** respectively.

12. We remain of the view that the corporatisation of SMO is the best way forward. If SMO were to remain as a vote-funded department, we would not be able to respond to the changing service needs at the pace required by the market and also the provision of better services for the community would be hindered.