

For discussion
on 3 June 2002

**LEGISLATIVE COUNCIL PANEL
ON FINANCIAL AFFAIRS**

**ESTABLISHING THE RATING & VALUATION DEPARTMENT
TRADING FUND**

INTRODUCTION

This paper informs Members of the proposal to establish the Rating and Valuation Department (RVD) Trading Fund.

BACKGROUND

2. As a traditional vote-funded department, RVD is subject to resource allocation and is constrained in developing business opportunities. RVD has explored various options for the department's future institutional structure. RVD has concluded that it is both viable and desirable for it to move to trading fund status, linked to the introduction of Service Level Agreements (SLAs) for its core statutory services.

Potential Benefits

3. We consider that the key benefits of moving RVD to trading fund status are :

(A) To RVD

- (a) The financial flexibility and autonomy will enable RVD to operate on a more commercial basis in delivering quality, speedy and innovative services and in developing new services.
- (b) Its new status will enable RVD to drive a more customer-focused service culture to achieve significant and sustainable improvements in efficiency and cost-effectiveness.

- (c) Full cost accountability will drive RVD to secure greater efficiency and higher productivity. Although not possible to quantify at this stage, this should lead to cost and manpower reductions over time.

(B) To the Community

- (a) RVD can respond promptly and effectively to rising customer demands for improved and new services.
- (b) RVD can exploit its property information database to support a more informed and transparent property market.

Scope of Fund

4. We consider the proposed Trading Fund should encompass the full range of services currently provided by RVD, including:

- (a) statutory assessment and collection of Rates and Government Rent;
- (b) maintenance of the Valuation Lists and Government Rent Rolls;
- (c) allocation of building numbers;
- (d) property valuation services to Government departments;
- (e) provision of property information services to Government departments and the public; and
- (f) provision of landlord and tenant statutory and advisory services.

Viability of Fund

5. Based on an analysis of RVD's revenue potential against its full operation cost we consider it would be able to meet its financial requirements as a trading fund. Initially the sources of its revenue are anticipated to be SLAs with the client government bureaux for statutory services. These would provide a stable source for some 86% of its income. Cross-charging for services to other departments and public bodies would account for a further 13% and directly-charged services and information to the public would cover the remaining balance of its

earnings. A background brief on RVD's core functions is at **Annex A**, and a breakdown of its current services in terms of full operating cost is at **Annex B**.

6. To formalize the customer-supplier relationship, RVD will enter into SLAs with its major client bureaux on the provision of statutory services. The SLAs will explicitly define:

- (a) the services, workload and standards required of RVD;
- (b) the basis on which it will be paid by the client bureau; and
- (c) performance-related incentives to encourage tangible service and efficiency improvements.

7. RVD will also be able to generate new services funded from its revenue. In this connection, it should be noted that a trading fund is a separate accounting entity within the Government. It does not have a separate legal identity. Unless expressly provided for in legislation, the services to be provided by a trading fund must be incidental to its government functions. The prospect of RVD as a trading fund participating in partnership with the private sector or engaging in the widespread provision of non-government, private sector services will therefore be remote. Nevertheless, we still think that there is some scope for the development of new services, such as provision of additional property information to the property sector and the public if RVD becomes a trading fund.

Efficiency gains

8. As a trading fund, RVD will need to achieve a return on its average net fixed assets, at an appropriate level to be determined by the Financial Secretary. The department will also commit to deliver on-going cost and efficiency improvements in order to reduce the financial risks from any fluctuations in demand for its services and to help ensure agreed financial returns are met.

JUSTIFICATIONS

9. We consider a move to trading fund status will provide RVD with the strongest drivers to:

- (a) secure further cost, efficiency and service improvements in its core valuation and billing services, driven by structured SLAs with the major client bureaux, including defined service standards and incentives for improved performance;
- (b) exploit its property information database to support a more transparent and efficient property market and to create new opportunities for the private sector to offer value-added services;
- (c) raise standards of service for all its customers. For example, for Government through speedier and more accurate valuations and more timely collection, and for ratepayers through electronic bulk billing and payment;
- (d) move early to accountability for full costs; and
- (e) motivate management and staff, behind a shared vision and identity, to focus on quality of service and sustained service improvement.

10. With RVD operating as a self-financing and financially accountable entity under the Trading Fund Ordinance (Cap. 430), the nature of its services will have a close similarity to that of some existing trading funds. For example,

- (a) as with the Electrical and Mechanical Services Trading Fund, most of the RVD Trading Fund income will come from Government payments for internal services provided to bureaux and departments; and
- (b) as with the Land Registry Trading Fund and the Companies Registry Trading Fund, the RVD Trading Fund will provide statutory services to the public.

11. As a trading fund, RVD will not be subject to establishment ceilings and has flexibility to adjust its non-directorate establishment to meet its operational needs. It can also recruit staff on temporary or contract basis to further enhance flexibility. Staff of the proposed RVD Trading Fund will remain civil servants and will continue to be subject to Civil Service Regulations. Full staff costs will be met by the Trading Fund from its revenue.

PREPARATORY WORK

Resolution of the Legislative Council

12. Section 3(1) of the Trading Funds Ordinance (Cap. 430) requires that a trading fund be set up by resolution of the Legislative Council. We will submit a resolution for approval by Members.

Framework Agreement

13. We will prepare a Framework Agreement governing the relationship between the Secretary for the Treasury (S for Tsy) and the Commissioner of Rating and Valuation (CRV) in respect of the operation of the proposed Trading Fund. This document will set out the authority and obligations of CRV in managing the Fund as its General Manager and the role of S for Tsy in approving the broad financial and operational arrangements of the Fund.

Corporate and Business Plans

14. As the General Manager of the proposed RVD Trading Fund, CRV will prepare a Business Plan and a medium range Corporate Plan which outlines, amongst other things, the Trading Fund's core business, service targets and financial projections.

Service Level Agreements (SLAs)

15. CRV will prepare SLAs with the Trading Fund's major client bureaux.

16. Our target is to bring the proposed RVD Trading Fund into operation on 1 July 2003.

STAFF CONSULTATION

17. In April 2002, we informed RVD staff of the proposal to set up the RVD Trading Fund. We held briefing sessions and discussion forums with staff members at all levels within RVD. The consultation exercise will continue and we will keep staff members informed as the proposal develops. Key concerns of the staff are briefly discussed in the following paragraphs.

18. Some staff consider that there are inadequate details about the trading fund, e.g. rate of return, business plans, SLAs, change in job nature and organization structure, and that time for consultation is insufficient. The requested details are not available at present but will be carefully considered and worked out with the help of a consultant which has just been appointed for this purpose by RVD. Staff will be kept fully informed of progress.

19. While agreeing with the need to secure efficiency and productivity improvements, staff are worried that the proposed RVD Trading Fund may undermine their job security. They are concerned about the prospect of staff redundancy arising from the freedom to choose service providers by client departments/bureaux which may result in less work for the proposed Trading Fund. They are also concerned that income receivable from the client bureaux under the SLAs may not meet the expenses incurred in the provision of the core statutory services.

20. We have explained to the staff that freedom of choice for customers will not be introduced immediately. In the initial period the bureaux will continue to use RVD's services as provided under the Rating Ordinance, Government Rent (Assessment and Collection) Ordinance, and the Landlord and Tenant (Consolidation) Ordinance. The remaining Government customers will be required to continue to use RVD's valuation services for a certain period. After this period, the customers will be permitted to choose alternative service providers under a phased programme. We will work out details of the programme and the length of

the period. We will also ensure that the terms of SLAs to be agreed are fair and take into full account all the costs incurred by RVD in the provision of core services.

21. Some staff are also concerned about promotion prospects. We have explained to them that with RVD as a trading fund, its staff will remain as civil servants and their terms of employment will remain unchanged. Furthermore, given the competitive edge of RVD in providing independent valuation services, career prospects are unlikely to be affected. There will also be greater scope for RVD to enhance job interest and job opportunities once it operates in a more commercial way to deliver its services.

**Finance Bureau & Rating and Valuation Department
May 2002**

ANNEXES

- Annex A A Background Brief on Rating and Valuation
Department's Core Functions
- Annex B Rating and Valuation Department Full Costs by
Services

A BACKGROUND BRIEF ON RATING & VALUATION DEPARTMENT'S CORE FUNCTIONS

The Rating and Valuation department (RVD) serves the community by providing fair and accurate property valuations and administering the collection of Rates and Government Rent, in accordance with the Rating Ordinance and Government Rent (Assessment and Collection) Ordinance. It also provides information and expert advice on property related matters and assists in administering the Landlord and Tenant (Consolidation) Ordinance, providing prompt and impartial advisory and mediatory services on tenancy issues. It is one of the Government's principal interfaces with the public, dealing with two million payers of Rates and Government Rent and more than 400 000 landlords and tenants.

The department has a track record of making significant improvements to its services to the Government and the public and in the efficiency of its operations. It has successfully tackled a number of challenges including the requirements to collect Government Rent in addition to Rates since July 1997, and to introduce annual general revaluation of properties since 1999. The proposal to move to a trading fund operation has arisen as a departmental initiative to examine the opportunities available for operating some or all of its functions on a new basis and introducing more commercially-oriented practices.

A consultancy study has been conducted to develop the business case for RVD to become a trading fund in comparison with the status quo and other forms of institutional change. The study has also provided a clearer picture of the future business and operations of the department, including the benefit and practicality of pursuing new business opportunities.

Annex B

**RATING & VALUATION DEPARTMENT
FULL COSTS BY SERVICES**

Core services/activities	Full cost 2000-01 \$Mn	Customer	Proposed charging arrangement	Potential financial viability
Statutory valuation and billing services including property market research and recovery of arrears	581	Finance Bureau	SLA	High
Statutory landlord and tenant services, e.g. <ul style="list-style-type: none">• monitoring possession cases• providing mediation in landlords/tenants disputes• processing applications under the Landlord and Tenant Ordinance, etc	51	Housing Bureau	SLA	Steady
Valuation and rental advice to other government departments or public bodies including building numbering services	97	User department/ Public bodies	Cross charging	Fluctuating
Valuation and property related information services to the public, e.g. <ul style="list-style-type: none">• Rates/Government Rent accounts• Property Info-Hotline• processing landlords/tenants related applications	6	Public	Service Fees	Fluctuating
Total full cost	735			