

THE GOVERNMENT MINUTE

in response to the

**REPORT NO. 43 OF
THE PUBLIC ACCOUNTS COMMITTEE**

dated February 2005

18 May 2005

**THE GOVERNMENT MINUTE IN RESPONSE TO THE
PUBLIC ACCOUNTS COMMITTEE REPORT NO. 43
DATED FEBRUARY 2005**

**REPORT ON THE RESULTS OF VALUE FOR
MONEY AUDITS (Report No. 40A)
MATTERS OUTSTANDING**

University Grants Committee funded institutions - Governance, strategic planning and financial and performance reporting (Chapter 1 of Part IV of P.A.C. Report No. 40A)

Corporate governance of institutions

Amendment to the University of Hong Kong Ordinance regarding the statutory roles of its Council and Court

The University of Hong Kong (HKU) has been working on amendments to the University of Hong Kong Ordinance so that the role of its Court will be more accurately defined and consistent with the statutes. The University expects to initiate the legislative amendment process within the next 12 months.

“Fitness for purpose” reviews on the governance structures of the other seven institutions

2. As reported in the last Annual Progress Report in response to the Public Accounts Committee (PAC)’s Report No. 40A, City University of Hong Kong (CityU) and Lingnan University (LU) have completed their respective “fitness for purpose” reviews on their governance structures. As for the other five institutions, their reviews are at various stages as follows –

Hong Kong Baptist University (HKBU) - The first set of review recommendations is targeted for submission to the University Council for consideration in August 2005.

The Chinese University of Hong Kong (CUHK) - The final report on governance structure is targeted for completion by July 2005.

The Hong Kong Institute of Education (HKIEd) - The legislative amendments regarding the composition of HKIEd Council and Academic Board will be submitted to the Institute Council for consideration by the end of 2005.

- The Hong Kong Polytechnic University (PolyU) - The University Council is considering the recommendations of the Governance and Management Review Committee, which will be completed by June 2005.
- The Hong Kong University of Science and Technology (HKUST) - The University has completed a review of the size and composition of its Council; and considers that the current size and composition of the Council, coupled with the standing arrangements to involve staff and student representatives regularly in joint Council/Court meetings, is fit for the effective governance of the University. As there is no outstanding issue on hand, we recommend deleting the part on HKUST from the next progress report.

Membership, attendance and attendance records in relation to Council meetings

3. Attendance records of Council members of CUHK, HKIEd, PolyU, HKUST, HKU and LU have already been made available to the public on the university websites and/or annual reports. CityU has also agreed to keep track of attendance records of Council members and will provide them to the Administration upon request. HKBU is considering the PAC's suggestion and aims to complete the review by August 2005.

Proposal to set up an audit committee – CityU, HKBU, CUHK and HKU

4. As reported in the last Annual Progress Report, CUHK, CityU and HKU have already established audit committees. HKBU's Review Committee on Governance Structure is studying a range of issues related to the governance of the University, including the establishment of an audit committee. The Committee aims to finalise its recommendations by August 2005.

Proposal to conduct periodic reviews of the effectiveness of governing bodies

5. As reported in the last Annual Progress Report, CityU, LU, CUHK, HKIEd, HKUST and HKU have completed their respective reviews on the effectiveness of the governing bodies and agreed to conduct "fitness for purpose" reviews in future on a periodic or need basis. PolyU's Council is in the process of considering the Governance and Management Review Committee's recommendation; whereas HKBU's Review Committee on Governance Structure is studying the matter. We shall report to the PAC their latest position in the next progress report.

University Grants Committee funded institutions - General administrative services
(Chapter 2 of Part IV of P.A.C. Report No. 40A)

Provision of senior staff quarters (SSQ)

University Grants Committee Working Group on Housing Arrangement After Deregulation of University Salaries

6. The Administration and the Secretary-General, University Grants Committee (UGC) are examining the joint proposal put forward by the UGC-funded institutions regarding the funding arrangement of staff housing benefits after the deregulation of university salaries. Subject to their deliberations, the proposal will be submitted to the Working Group on Housing Arrangement After Deregulation of University Salaries for consideration.

Action taken by institutions to address the rent charging practices for SSQ staff receiving Private Tenancy Allowance (PTA) or Home Financing Allowance (HFA)

7. As reported in the last Annual Progress Report, CityU, HKBU, PolyU, HKIEd and HKU are already charging market rents in leasing vacant SSQ to their staff receiving PTA/HFA.

8. CUHK is charging PTA recipients and other residents the market rental level for occupancy of SSQ. HFA recipients are allowed to rent vacant SSQ at market rates not exceeding 115% of their entitlements, with the rental to be paid being the amount of their individual HFA regardless of whether the market rents (subject to the above ceiling) are higher or lower than the HFA. According to CUHK, the number of SSQ occupants whose HFA exceeds market rentals is significantly greater than those below, and the aggregate rents collected by CUHK exceed the corresponding aggregate market rentals by a decent margin. To ensure that the rentals collected from HFA recipients reflect market rentals, CUHK adjusts market rentals annually and reviews the possibility and appropriateness of relocating occupants upon the expiry of their existing tenancy agreements subject to the availability of suitable quarters.

9. As regards HKUST, the HFA recipients living in SSQ are charged their respective HFA rates; and the total sum of rental collected from all these occupants involved is no less than the total market rents to be collected from these flats. HKUST undertakes to review the rent-charging practice for HFA recipients occupying SSQ, and to charge HFA recipients market rents for occupancy of SSQ as appropriate upon the expiry of the existing tenancy agreements.

Provision of junior staff quarters (JSQ)

Reviews by the institutions on the operational need for JSQ

10. As reported in the last Annual Progress Report, CityU, HKUST and HKU have already reviewed the operational needs of JSQ and have implemented positive measures to put JSQ to their optimal use. As for the other three institutions, they have completed their respective reviews on JSQ as follows –

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|-------|---|
| LU | - The number of JSQ provided for operational needs will be reduced from six to four. LU will also convert the vacant flats into staff quarters for its eligible staff and visiting academics by July/August 2005. |
| CUHK | - Some JSQs have been identified for demolition with a view to constructing new buildings under its campus development plans. |
| HKIED | - Vacant JSQs are leased to staff at market rental, and there is only one vacant quarter (out of a total of 26) as at 30 April 2005. |

11. As the above three institutions have taken positive action to address the PAC's concern, we recommend deleting this part from the next progress report.

Review of the existing policy on students' grants and loans

12. The Administration constantly reviews its policy on students' grants and loans, taking into account new developments in the sector and comments from relevant parties. The advisory committee that advises the Administration on the operation of the Local Student Finance Scheme has, based on the findings of a student expenditure survey, put forward a number of recommendations to improve the types and levels of grants and loans for needy students, including the recommendation to provide needy students with an accommodation expenses loan so as to enable them to live in student hostels. The Administration is considering the committee's recommendations, and will come to a view within the next few months.

University Grants Committee funded institutions - Staff remuneration packages and stipends (Chapter 3 of Part IV of P.A.C. Report No. 40A)

Pay structure

Institutions' reviews of their pay structure

13. As reported in the last Annual Progress Report, CityU, HKBU, LU, CUHK and PolyU have already completed their reviews on the pay and reward structure of their staff. The status of the reviews for the other three institutions is summarised as follows –

- HKIED
- The review on non-teaching and teaching positions is currently underway and the review recommendations will be submitted to the HKIED Council for consideration in May 2005.
- HKU
- HKU's Council approved the recommendations of the review of pay structure for academic staff in September 2004. The new salary scales for academic staff are characterised by overlapping salary ranges among the three new categories of Assistant Professor, Associate Professor and Professor. The new salary increment system is entirely merit-based subject to availability of funds. All existing academic staff will be allowed to retain their present salaries and benefits upon promotion, contract renewal or transfer. HKU will implement the above proposals in stages within 12 months.
 - HKU has also commissioned a consultant to conduct a salary review for the non-academic staff salary structure. The consultant will submit recommendations to the University before the end of the 2004/05 academic year.
- HKUST
- The University has completed the review on the salary structure for non-academic staff. Downward adjustments to the entry level salary will be applied to newly-appointed staff and the new salary structure is broadly comparable to those in other institutions. As there is no outstanding issue on hand, we recommend deleting the part on HKUST from the next progress report.

PolyU's review on the effect of section 9(3)(c) of The Hong Kong Polytechnic University Ordinance and its proper application

14. The Governance and Management Review Committee of PolyU has reviewed The Hong Kong Polytechnic University Ordinance and submitted its review report covering its recommendations on various sections of the Ordinance, including section 9(3)(c). The PolyU Council is considering these recommendations.

Administration of leave

Institutions to address the problems associated with the excessive leave entitlements and the encashment of leave

15. CityU, HKBU, LU, CUHK, PolyU and HKUST have taken positive measures to tackle the problems associated with excessive leave entitlements and encashment of leave as detailed in the last Annual Progress Report. As regards the other two institutions, the present position of their reviews is as follows –

- HKIED - The review on vacation leave entitlement is being conducted and the recommendations will be submitted to the HKIED Council for consideration in May 2005.

- HKU - The review to address the problem of excessive leave entitlement and encashment of leave is in progress and will be completed by the end of 2005.

**REPORT ON THE RESULTS OF VALUE FOR
MONEY AUDITS (Report No. 41)
MATTERS OUTSTANDING**

Financial performance of the Post Office (paragraphs 7 to 8 of Part III of P.A.C. Report No. 41)

The results of the comprehensive review of postal policy and services

16. The Post Office (PO), together with the Economic Development and Labour Bureau and the Financial Services and the Treasury Bureau, continues to examine critically the challenges to PO's operation as identified by the PAC. Apart from PO's financial performance and operation as a trading fund, the studies have covered issues relating to the postal services market, including global developments and overseas experience in reforming the postal services. PO is also examining its network of branch offices' operations. As inter-related complex issues are involved, more detailed studies on these are ongoing.

Provision of slaughtering facilities for supplying fresh meat (paragraphs 3 to 4 of Part IV of P.A.C. Report No. 41)

Feasibility of centralizing slaughtering operation of livestock at the Sheung Shui Slaughterhouse (SSSH)

17. The consultancy study to forecast the slaughtering throughput of livestock in the territory up to the year 2007 had been completed. With reference to the outcome of the study and the waste water discharge rate of the SSSH in the past years up to early 2005, Architectural Services Department (Arch SD) initially assesses that there is room for increasing the slaughtering capacity of pigs at the SSSH. However, a technical feasibility study involving a review on the need and scope of modification works to address the holding capacity requirements and the associated environmental impact issues is required. Arch SD's study will commence in August 2005 for completion in early 2006. The Food and Environmental Hygiene Department (FEHD) will consider the findings of Arch SD's study and other related factors before making recommendations on the feasibility of centralizing slaughtering operation of livestock at the SSSH and the way forward.

Services provided by the Official Receiver's Offices (paragraphs 5 to 7 of Part IV of P.A.C. Report No. 41)

Consultancy Study and Fees of the Official Receiver's Office

18. The question of fees and cost recovery rates will be reviewed after the enactment of the Bankruptcy (Amendment) Bill, which was reintroduced into the Legislative Council (LegCo) as the Bankruptcy (Amendment) Bill 2004 in October 2004

and is now being scrutinized by a Bills Committee formed under the LegCo. When enacted, this Bill will facilitate outsourcing of debtor-petition summary bankruptcy cases to private sector insolvency practitioners ('PIPs') by the Official Receiver's Office.

19. As regards other recommendations of the consultancy study, the proposed "cab-rank" system and some form of authorization of PIPs will be further considered in the context of the evaluation of the implementation of the outsourcing arrangements in the future.

Recoverability of the outstanding advances to the United Nations High Commissioner for Refugees (paragraphs 17 to 18 of Part IV of P.A.C. Report No. 41)

20. The Administration has continued to urge the United Nations High Commissioner for Refugees (UNHCR) to make renewed efforts to look for donations from other countries with a view to settling the outstanding advances, which remains at \$1,162 million. At a meeting with UNHCR Sub-office in Hong Kong in February 2005, the Security Bureau reiterated that the Hong Kong community at large still expected recovery of the outstanding advances.

21. The Administration will continue to pursue repayment of the outstanding advances.

Footbridge connections between five commercial buildings in the Central District (paragraphs 19 to 22 of Part IV of P.A.C. Report No. 41)

22. As the column of the proposed footbridge would affect the station entrances/exits of the proposed Shatin to Central Link (SCL) of the Kowloon-Canton Railway Corporation (KCRC), KCRC has raised objection to the proposed footbridge during consultation.

23. The Administration is now assessing KCRC's draft Final Proposal on SCL and the SCL proposal jointly developed by KCRC and Mass Transit Railway Corporation Limited under the Merger Study. We shall consider the way forward for the footbridge proposal in conjunction with the SCL Scheme.

The use of energy-efficient air-conditioning systems in Hong Kong (paragraphs 23 to 24 of Part IV of P.A.C. Report No. 41)

24. The Consultancy Study for implementation of Water-cooled Air Conditioning System (WACS) in Wanchai and Causeway Bay was completed. The final report was submitted to the steering group of the Consultancy Study in April 2005. The Administration is considering the report's recommendation on the implementation of a district cooling system (DCS) in Wanchai North Waterfront.

25. The comprehensive planning and engineering review on South East Kowloon Development (SEKD) is in progress and estimated to be completed by 2008. As the eventual reclamation plan for SEKD will affect the site of the DCS facilities and the commercial viability of the DCS project, the Electrical and Mechanical Services Department (EMSD) will need to review the feasibility of the DCS project having regard to the ultimate revision of reclamation plan for SEKD. We recommend deleting this part from the next progress report.

26. Follow-up action on the salient points recommended by the Territory-wide Implementation Study of WACS in Hong Kong has been taken, including lifting the restriction of using fresh water cooling towers in the areas where the fresh supply is adequate. A task force for compiling the code of practice for WACS (evaporative type section) was formed in September 2004 and the draft code of practice would be submitted to the task force for consideration. The code of practice is planned for publication in November 2005.

27. EMSD introduced a pilot scheme in 2000 to allow the use of fresh water in evaporative cooling to improve the energy efficiency of the air conditioning systems of non-domestic buildings. We further expanded the scheme to cover 71 areas in April 2005. We had received 138 applications and 80 of them had been approved in principle, covering about 4.8 million square metres floor area. The estimated annual savings in electricity will be about 58 million kilowatt-hours. So far, 28 installations had been completed and commissioned.

28. EMSD has completed the last phase of inspection programme of cooling towers in April 2005. With the deployment of additional resources to the programme, about 4 500 cooling towers have been inspected in this last phase of the programme, far exceeding the number originally anticipated. As the whole inspection programme has also been concluded, we recommend deleting this part from the next progress report.

29. The Buildings Department (BD) has continued with the large-scale clearance exercise to remove potentially dangerous external unauthorized building works, including cooling tower supporting structures. In these operations, 434 problematic cooling tower supporting structures were removed from commercial and industrial buildings in 2004. It is expected that another 400 will be removed in 2005. BD is stepping up prosecution action against defaulters for non-compliance of removal orders particularly those cases posing a health hazard.

Administration of allowances in the civil service (paragraphs 25 to 26 of Part IV of P.A.C. Report No. 41)

Review of job-related allowances (JRAs) for civilian grades

30. Following the completion of phase one and phase two reviews in May and November 2003 respectively, the Administration completed in early February 2005 the phase three JRA review, which covered Hardship Allowances payable to staff in the Department of Health and FEHD and civil servants working in the Hospital Authority.

Along with the approach adopted for the review in the first two phases, the phase three review had taken account of all relevant factors, including the updated JRA governing principles, the original justifications for the allowances in question, present day circumstances, prudence in the use of public expenditure, departmental management's review recommendations and staff feedback. The Civil Service Bureau (CSB) had also sought to ensure service-wide consistency in standards in approving the payment of JRAs.

31. Consistent with the established guideline, only those posts that are engaged in obnoxious duties for an appreciable portion of the normal working time of the staff concerned will continue to be eligible for Hardship Allowance. Approval has also been given for certain posts which are not engaged in direct handling of obnoxious matters, but are nevertheless subject to the same obnoxious work environment to receive the allowance at half rate. CSB has implemented the outcome of the phase three JRA review with effect from 1 April 2005. The estimated annual saving is \$8.6 million.

32. With the conclusion of the comprehensive review of all individual JRAs payable to civilian grades, the total estimated annual saving is \$29.2 million, or 25.4% of the total annual expenditure of the allowances concerned. All allowances that are approved under the comprehensive review are subject to regular review in future to ensure that their continued payment is justified and appropriate under the prevailing circumstances, in accordance with the established JRA review and monitoring mechanism.

33. We recommend deleting this part from the next progress report.

JRAs for disciplined services grades

34. The Administration has introduced a review and monitoring mechanism for the payment of JRAs in the disciplined services similar to that applicable to the civilian grades. All Heads of Department of disciplined services have to review each JRA under their purview individually and submit their review recommendations to CSB for approval on a time-limited basis, subject to further review and re-approval by the end of the specified validity period. The first review under this review mechanism is under way and we aim to complete it as soon as possible.

Water purchased from Guangdong Province (paragraphs 27 to 28 of Part IV of P.A.C. Report No. 41)

Further efforts to incorporate more favourable terms in future water supply agreements, including more flexibility in the supply arrangements

35. The Guangdong Authority continued with the flexible water supply arrangements in 2004. Having regard to the drought yield condition, as evidenced by the fact that the actual amount of rainwater collected by Hong Kong's reservoirs in 2004 was only about 111 million cubic metres or 37.6% of the long-term annual average, the Administration had maximised the utilisation of Dongjiang water supply in 2004.

36. Whilst negotiation on the water supply arrangements from 2005 onwards is still in progress, the continuation of Dongjiang water supply to Hong Kong has been guaranteed by the Guangdong Authority. The Administration will continue to strive for more favourable terms in future water supply agreements to suit Hong Kong's needs.

Interdiction of government officers (paragraphs 29 to 30 of Part IV of P.A.C. Report No. 41)

Review of the disciplinary procedures practised in the disciplined services

37. The Working Group to review the Police discipline system has examined the short, medium and long term improvements to the system and the Force management is considering these recommendations. The short term recommendations that involve changes in administrative procedures will most likely be implemented in late 2005 while the medium and long term recommendations, which will require legislative amendments, are being examined in more detail. We will inform the PAC of the outcome in due course.

Stoppage of salary on the date of conviction

38. We have included in the review of the Police discipline system the issue of amending section 37(4) of the Police Force Ordinance to stop payment of the salary of an interdicted officer with effect from the date of conviction (as opposed to the following day). We shall inform the PAC of the outcome in due course.

Provision of legal aid services (paragraphs 37 to 38 of Part IV of P.A.C. Report No. 41)

Some measures to contain the costs of legal aid

39. The Administration launched in mid-March 2005 a Pilot Scheme on mediation of legally aided matrimonial cases (Pilot Scheme) to assess the cost-effectiveness and full implications of extending legal aid funding to cover mediation of matrimonial cases.

40. The Pilot Scheme also utilizes the services provided by the Judiciary's Mediation Coordinator's Office. Legally aided persons and the other party are invited to join the Pilot Scheme on a voluntary basis and the Legal Aid Department (LAD) will pay for both sides' mediators' fees.

41. The Pilot Scheme will last for one year. As it will take time for the proceedings involving cases under the Pilot Scheme to conclude, LAD aims at completing the evaluation of the outcome of the Pilot Scheme by 2007-08.

Residential services for the elderly (paragraphs 39 to 40 of Part IV of P.A.C. Report No. 41)

Developing an accreditation system for residential care services for elders

42. Having completed a two-year pilot project on developing and trial running an accreditation tool for residential care homes for the elderly (RCHEs), the Hong Kong Association of Gerontology (HKAG) has developed a model for bringing forward the concept of accrediting RCHEs in Hong Kong, which is premised on the principle of voluntary participation by RCHEs and peer review. HKAG recommended that a non-mandatory accreditation scheme be established on a long term basis, and that the scheme be operated by a non-statutory independent body on a self-financing basis. The recommendation has the support of the Elderly Commission, the LegCo Panel on Welfare Services, and the Administration. In March 2005, HKAG launched an accreditation scheme for RCHEs along the aforementioned principles at its own initiative. We recommend deleting this part from the next progress report as no further action is required on the part of the Administration.

Implementing work plan on provision of subsidised long-term care services and actions taken to address the problem of allocation of resources between the Hospital Authority and the Social Welfare Department regarding the provision of infirmity care

43. In November and December 2004, we consulted the Elderly Commission and the LegCo Panel on Welfare Services respectively on our proposed trial scheme for providing infirmity services for medically stable frail elders in a non-hospital setting. The Health, Welfare and Food Bureau (HWFB) and the Social Welfare Department are considering the best way to provide such service on a trial basis, in the light of feedback received during the consultation process.

The Customs and Excise Department's efforts to protect government revenue from dutiable commodities (paragraphs 41 to 42 of Part IV of P.A.C. Report No. 41)

Customs audits of oil companies

44. The Customs and Excise Department (C&ED) has completed a pilot scheme with an oil company and successfully developed an audit programme for the oil company using the system-based approach (SBA) model. The pilot scheme has shown that it is both practicable and effective to apply the SBA model in auditing oil companies. We aim to apply the SBA model to all oil companies by April 2006.

Trial Scheme of "Red and Green Channels"

45. The construction work for implementing the "Red and Green Channels" at the control points and the airport has experienced some delay and is expected to be completed by September 2005. C&ED will launch a series of publicity programmes to inform travellers and the public of this new Customs clearance mode before the start of the trial scheme of the "Red and Green Channels" in November 2005. The new measure will assist C&ED in detecting abuse of duty-free concessions by incoming passengers.

Special Finance Scheme for small and medium enterprises (paragraphs 43 to 44 of Part IV of P.A.C. Report No. 41)

46. All government guarantees under this Scheme have expired. The Treasury has been processing claims for compensation with the assistance of the Department of Justice and the Hong Kong Monetary Authority as necessary. So far 1 320 claims involving a total of \$328 million have been settled. Another 42 claims involving a total of \$12 million have been suspended from processing as requested by the participating lending institutions in view of active repayment by the borrowers. The Treasury is processing the remaining 189 cases involving a total of \$30 million.

Small house grants in the New Territories (paragraphs 45 to 47 of Part IV of P.A.C. Report No. 41)

Implementation of Small House policy

47. Work on the Small House Policy Review continues. Since there are many complicated issues involved, we have to conduct very thorough research and data collection to facilitate the review process. Such work is time consuming. The Administration is working towards the target of identifying options for further consultation with stakeholders.

48. Heung Yee Kuk (HYK)'s stance of opposing any moratorium remains unchanged. The Administration will continue the discussion with HYK on the way forward.

Checking of Indigenous Villager (IV) Status

49. As mentioned in the previous progress report, HYK has disputed the need for any revised procedures for checking an applicant's IV status. It considers that certification of a person's IV status is a function of the Indigenous Inhabitant Representatives (IIRs) elected under the Villager Representative Election Ordinance (Cap 576) and that a certification of IV status issued by an IIR should suffice. The Lands Department (Lands D) has held a series of meetings and discussions with HYK. Lands D now agrees to adopt HYK's proposal, subject to the IIR being willing to do a statutory declaration on an applicant's IV status. In addition, Lands D will set down procedures for cases which would require detailed investigation.

Processing of Small House Grant Applications

50. Now that the revised procedures for verifying the IV status of small house applicants have been agreed with HYK, subject to discussions over other related issues being satisfactorily concluded, the new and streamlined procedures for dealing with small house applications will be put into practice shortly. It is anticipated that the waiting time for applications will be significantly reduced upon the implementation of the revised procedures.

Primary education - Planning and provision of primary school places (paragraphs 48 to 49 of Part IV of P.A.C. Report No. 41)

Progress of the study on small class teaching

51. A total of 37 primary schools have been testing out the concept of small class teaching amongst their Primary One and Primary Two classes for three years as from the 2004/05 school year. The study is expected to complete by 2007 and the final report will be available by the end of 2008. The Education and Manpower Bureau (EMB) has been reporting the progress of the study to the LegCo Panel on Education from time to time.

52. As the progress of the study is followed up at the LegCo Panel on Education in greater detail, we recommend deleting this part from the next progress report.

Progress made by EMB in phasing out rural schools

53. In the 2005/06 school year, there will be 55 rural schools in operation. Of these rural schools, 34 will not have any Primary One class. Schools without Primary One class are expected to phase out gradually.

54. Since the follow-up action will be taken on an ongoing basis, we recommend deleting this part from the next progress report.

Primary education - The administration of primary schools (paragraphs 50 to 51 of Part IV of P.A.C. Report No. 41)

Strategic planning and financial management

Fundamental review of grants to schools

55. EMB has formulated a proposal to streamline the deployment of grants and to give schools more flexibility, and will soon be ready to consult the LegCo Panel on Education on the proposal.

Primary Education - Delivery of effective primary education (paragraphs 52 to 53 of Part IV of P.A.C. Report No. 41)

Surveys on students' physical fitness status and participation in sports activities

56. EMB commissioned CUHK to conduct a survey on primary students' physical fitness status and their participation in sports activities in the 2003/04 school year. 45 primary schools with 7 338 students drawn by stratified random sampling took part in the survey. The study has been completed and EMB received the report in June 2004.

57. Since follow-up action has been completed, we recommend deleting this part from the next progress report.

Enhancing the effectiveness of the assessment mechanism in facilitating learning and teaching

58. EMB administered the System Assessment at Primary 3 in mid-2004 and reported results to schools in December 2004. EMB will administer the assessment at Primary 3 and Primary 6 in July 2005.

59. Since follow-up action will be taken on an ongoing basis, we recommend deleting this part from the next progress report.

**Public markets managed by the Food and Environmental Hygiene Department
(Chapter 1 of Part VII of P.A.C. Report No. 41)**

Comprehensive review on the Market Stall Vacancy Rate (MSVR) of public markets

60. FEHD continues to take various initiatives to promote public markets. FEHD has selected Sai Wan Ho Market, Yan Oi Market and Luen Wo Hui Market, and has tried to promote new lines of business in these markets by writing to 13 service trade associations (covering service industries like banking, travelling, etc.) and advertising through various channels. FEHD will continue to reach out to potential tenants in a proactive manner.

61. FEHD continues to publish quarterly newsletters to disseminate market and other relevant information to customers and tenants. To attract more customers, various promotion activities such as Lunar New Year Festive Promotions, lucky draws, competitions, workshops, and exhibitions were held in selected markets. Improvement items such as addition of decoration and signage were also carried out in selected markets after the Department had consulted the concerned Market Management Consultative Committees.

62. To enhance their attraction to potential bidders, FEHD has identified some 350 long-standing vacant small stalls which are found technically feasible for merging into larger stalls. Arch SD has been carrying out the conversion works and so far put in place 30 merged stalls. The Department is obtaining the updated Open Market Rental from the Rating and Valuation Department and will make available these merged stalls for letting-out through public auction around mid-2005.

63. FEHD has engaged a private company to conduct a survey to examine whether there have been changes in public shopping habits recently in terms of their patronage to markets and other retail outlets including supermarkets, and if so, the reasons behind. The survey will be completed by mid-2005. FEHD will take the result of this survey into account in deciding whether it is feasible to set a target MSVR for individual markets.

64. FEHD has completed a study on the possible causes leading to the high MSVRs in a few markets commissioned after 1998, namely, the Lei Yue Mun, Luen Wo Hui, Peng Chau and Yee On Street Markets. The findings are that the main causes for the high MSVRs are increasingly intense competition from nearby fresh provision shops/supermarkets/other markets (e.g. those under the Housing Authority) in the neighbourhood, and over-provision of market stalls. FEHD will continue to explore ways and means to reduce the MSVRs of public markets.

Review of ways to express the MSVR

65. FEHD has arranged to include the two overall MSVRs, namely, a gross MSVR which covers all vacant stalls including those set aside for designated purposes, and a net MSVR which excludes all stalls frozen for designated purposes, in the next issue of the FEHD Annual Statistical Report in mid-2005. As action has been completed, we recommend deleting this part from the next progress report.

Review on the justifications for the maximum number of non-trading days allowed in a year

66. FEHD has introduced an aligned tenancy clause for all tenants of public markets. Under the aligned tenancy clause, a tenant shall not cease or suspend business at the stall for seven days or more in a calendar month without the prior written consent of FEHD. FEHD has imposed the new tenancy clause on all new tenancies and existing tenancies commencing 1 February 2005 and 1 April 2005 respectively. As action has been completed, we recommend deleting this part from the next progress report.

Review of the demand for public market facilities

67. HWFB has initially agreed with the Planning Department that it is necessary to review the current planning standards for the provision of market facilities in the Hong Kong Planning Standards and Guidelines. The matter will be further considered in the context of a comprehensive review of wet market policy being conducted jointly by HWFB and FEHD.

Study to identify markets that may merit closure and details of HWFB's rationalization plan to be drawn

68. FEHD has conducted a study to identify markets with serious and insurmountable viability problems that may merit closure/consolidation. Meanwhile, HWFB and FEHD are undertaking a review on wet market policy and market closure will form part and parcel of the review. The review will be completed in early 2006. Based on the results of the study and the policy review, FEHD will consult the relevant stakeholders including the affected stall tenants and the District Councils and then draw up the rationalization plans.

Reassessment of the need to retro-fit air-conditioning (A/C) system in public markets, including the Yue Wan Market, the San Hui Market and the Fa Yuen Street Market

69. Works for retro-fitting the A/C system in the Yue Wan Market were completed in March 2005 while works for the San Hui Market will commence around August 2005. Subject to the outcome of further consultation with concerned stall tenants and Yau Tsim Mong District Council (YTMD), FEHD plans to retro-fit the AC system in Fa Yuen Street Market and Cooked Food Centre when implementing the general improvement works. The project plan will include the retro-fitting works if the works continue to receive support from 85% tenants or more.

Identification of beneficial permanent use of vacant market floor space in the Fa Yuen Street Market and the To Kwa Wan Market

70. FEHD is studying the project plan for the proposed conversion of the vacant floor space in Fa Yuen Street Market into a government office, subject to the outcome of further deliberation on the use of the floor space by the YTMD. FEHD is prepared to withdraw the plan (any time before contract award) in case alternative use of the floor space can be identified and is agreeable to the relevant departments/bureaux.

71. After consulting relevant departments, FEHD finds that its proposal to turn the vacant basement floor in To Kwa Wan (TKW) Market into one of its seized goods compounds is not technically feasible after taking into account the difficulties in working out the on-street loading/unloading arrangements and the associated traffic problem that might arise as a result. The Department also explored, without success, letting out the vacant space to existing stall tenants in TKW Market for storage purpose. Given its designated market use, it would be inappropriate for FEHD to lease the stalls to non-tenants. Government Property Agency is exploring alternative use by other government departments but no bid has been received so far. FEHD will continue to use the basement for storage of cleansing gear for the time being until other gainful use could be identified by the Government.

Provision of noise barriers for mitigating road traffic noise (Chapter 2 of Part VII of P.A.C. Report No. 41)

Sufficient Time in Works Contracts and Incremental Approach

72. The Environment, Transport and Works Bureau has revised and issued an internal circular which formally reminds the works departments to –

- (a) allow sufficient time in their works contract implementation plans for complying with the relevant statutory requirements; and
- (b) adopt an incremental approach in putting up noise barriers to tie in with the timing of completion of the planned environmentally sensitive uses.

Recover Costs from Private Developers

73. The checking of previous similar cases of mitigating works will be completed by mid-2005. Subject to the outcome of this research, we will explore the feasibility of recovering from the developer(s) the cost of constructing the noise barriers as appropriate.

Other Audit Findings

Post-Implementation Monitoring

74. The Highways Department completed the post-implementation monitoring of the effectiveness of the noise barriers for Tolo Highway Widening Project and Hiram Highway Improvement Phase 3 in end-2004. The noise barriers were confirmed acoustically effective.

Buildings Department's efforts to tackle the unauthorised building works problem (Chapter 3 of Part VII of P.A.C. Report No. 41)

Extent of compliance with section 24 orders and complaint cases

75. BD's progress in implementing improvement measures to tackle the unauthorised building works (UBW) problem is as follows –

- (a) BD has enhanced the monitoring system on complaint cases and provided additional staff training; and
- (b) BD has deployed additional resources and set performance targets to speed up the clearance of long outstanding removal orders in respect of UBW. Progress in clearing these outstanding removal orders is satisfactory. BD's targets to clear by March 2005, 75%, 50% and 35% of the outstanding removal orders issued between 1991 and 1995, between 1996 and 1998 and in 1999 respectively have all been achieved. In respect of the target to clear by March 2005 100% of the outstanding removal orders issued before 1991, BD has achieved 99.1%. BD is now actively pursuing the remaining six outstanding cases. In respect of the targets to clear 80%, 75%, 52% and 40% of the orders issued in 2000, 2001, 2002 and 2003 respectively by March 2005, these have already been achieved by July 2004. The new targets set for clearance of the remaining outstanding orders by March 2006 together with actual performance updates will be published on BD's website in May 2005 to improve BD's accountability to the public.

BD's prosecution policy and practice

76. BD has stepped up prosecution against owners who fail to comply with removal orders. BD has initiated 1 664 prosecutions in 2004 and has increased the target from 1 000 prosecutions in 2004 to 3 000 in 2005. BD has already initiated 907 prosecutions by 30 April 2005.

The Coordinated Maintenance of Buildings Scheme (CMBS)

77. As a result of the review on the effectiveness of the CMBS, BD launched a new modality for implementing CMBS in collaboration with the Hong Kong Housing Society (HKHS) in addition to the six participating departments on 1 February 2005. With the assistance of HKHS in liaison and provision of technical support to owners, BD can focus its work on conducting inspections on buildings with defects and UBWs and enforcing statutory repair and removal orders.

Illegal rooftop structures (IRS)

78. Out of 5 560 identified single staircase buildings (4 500 identified in 1998 survey and an additional 1 060 as reported in last progress report), BD has cleared IRS on 2 900 single staircase buildings so far. BD plans to clear all IRS from all identified single staircase buildings by mid 2008.

Control of signboards

79. The progress in clearing the outstanding Dangerous Structure Removal Notices (DSRN) has been satisfactory. All DSRNs issued in or before 2003 have been removed except one which will also be cleared by the end of May 2005. Furthermore, BD proposes to include the control for the erection of signboards within certain size limits in the minor works control regime to be established under the Buildings Ordinance. The minor works control regime aims at providing a legal, safe and cost-effective means for the carrying out of minor works, including signboards. We intend to introduce the Buildings (Amendment) Bill in 2005 to take forward the proposed regime. The Director of Buildings will carry out a post-implementation review of the regime to ascertain its effectiveness.

80. We will keep the PAC informed of further progress in taking forward the Director of Audit (D of A)'s recommendations in respect of clearance of outstanding removal orders of UBW, implementation of the modified CMBS and control of signboards.

Planning and provision of public secondary school places (Chapter 4 of Part VII of P.A.C. Report No. 41)

Need for buying school places from caput schools

81. Among the nine caput schools, one has submitted an application for joining the Direct Subsidy Scheme (DSS) effective from the 2006/07 school year and one has proposed to close down by the 2006/07 school year. We will continue the dialogue with the remaining caput schools on the way forward, and monitor the demand and supply of secondary school places.

82. Since follow-up actions will be taken as on-going activities, we recommend deleting this part from the next progress report.

Schools places provided by DSS schools

83. At present, the DSS school places account for about 5% of the total provision of places in public sector schools. EMB will continue to monitor the development of DSS schools, with particular attention to their trend and pattern of enrolment.

The acquisition and clearance of shipyard sites (Chapter 5 of Part VII of P.A.C. Report No. 41)

Resumption and Clearance of the North Tsing Yi Shipyard Site

84. The recommendations in paragraph 2.14 of the Director of Audit (D of A)'s Report No. 41 mainly relate to the need to hold tenants under short-term tenancies (STTs) to their contractual obligation of clearing structures when the STTs are terminated. The D of A has recommended that where a waiver of this obligation is considered necessary, the prior approval of the Secretary for Financial Services and the Treasury has to be sought. Also, the Director of Lands (D of L) should state clearly in the Lands Administration Office (LAO) Instructions the specific justifications under which an STT tenant may be exempted from clearing the site upon termination of the tenancy.

85. The Administration is considering how best to implement these recommendations. Given the fact that some STT tenants may have genuine financial difficulties in arranging for the demolition of their structures, there may be a need to exempt certain clearerees from complying with the self-demolition requirement on compassionate grounds. The relevant bureaux and departments are examining this matter. At the same time, Lands D is also exploring measures to better enforce the self-demolition requirement. Subject to the outcome of the foregoing exercises, the LAO Instructions will be amended as recommended by the D of A.

86. As regards the issue of the recovery of the decontamination costs of the North Tsing Yi shipyard sites, after considering further detailed legal advice from both overseas and local counsel and reports from environmental consultants, the Government has concluded that, based on the actual circumstances and facts of these particular cases including the conditions of the tenancies and leases, the prospect of successfully pursuing the protective writs is not good enough to justify pursuing legal action against the ex-tenants/lessees for recovery of the decontamination costs, bearing in mind the potential costs of legal proceedings. Accordingly, the Government has decided not to take any further action to recover these costs.

Assessment of Contamination at the Penny's Bay Shipyard Site

87. As regards the recovery of decontamination costs from the ex-lessee of the Penny's Bay shipyard site or the shipyard operator, the Leading Counsel has advised that, in light of the "as is" condition in the deed of surrender, there is no cause of action to recover the decontamination costs except that, subject to expert evidence, the Court could be asked to take into account the decontamination costs in determination of the ex-lessee's claims under Foreshore and Sea-bed (Reclamations) Ordinance, Cap 127. Government is acting in accordance with this advice.

Funding of tertiary education (Chapter 6 of Part VII of P.A.C. Report No. 41)

UGC's endeavours in benchmarking the cost of tertiary education

88. The consultant appointed by UGC completed the scoping study on the review of costing and pricing of higher education in Hong Kong in November 2004. The UGC was consulted on the way forward in January 2005 and was content with the recommended approach of adopting an activity-based costing system in the costing review exercise. The UGC is looking into its existing activity-based expenditure reporting system (i.e. the Common Data Collection Format) and will engage another consultancy to review the costing and funding methodology of the UGC-funded sector in detail. The UGC will also define clearly the objectives of the exercise and draw up a detailed work plan in summer 2005.

Funding and resource allocation

89. The recurrent funding exercise for the UGC-funded institutions in the 2005/06 to 2007/08 triennium has been completed. To enhance the transparency of the funding methodology, UGC submitted an information note on the funding mechanisms to the LegCo Panel on Education in January 2005. The information on the relative cost weightings of the Academic Programme Categories was also disclosed to institutions through the allocation letters issued by UGC on 1 March 2005. The UGC will update relevant parts of the UGC Notes on Procedures shortly.

90. As the new funding methodology for the 2005/06 to 2007/08 triennium is in place and UGC has taken positive action to provide details of the funding exercise to the institutions, we recommend deleting this part from the next progress report.

Research assessment exercise (RAE) and implementation of research projects

Transparency of the RAE results and widening the membership of the RAE assessment panels

91. To enhance the transparency of the RAE results, UGC has decided to publicise the RAE 2006 results including the following –

- (a) operational details of the process, such as panel membership, evaluation methodology and meeting schedules of the RAE assessment panels;
- (b) RAE results at the sector wide level (except for cost centres which are only found in fewer than three institutions); and
- (c) aggregate results in broad disciplinary areas at the institutional level.

92. In addition, UGC will also develop some reading guides to help the public and the press understand the statistics and appreciate the trend of research performance of the higher education sector in the past years.

93. As regards the membership of the RAE assessment panels for RAE 2006, the number of non-local, professional and lay members will be increased so as to widen participation.

94. As UGC has taken positive action to address the PAC's concerns, we recommend deleting this part from the next progress report.

Funding of self-financing activities

95. The Heads of Universities Committee (HUCOM) has recently submitted the final report on review of overhead recovery practices of self-financing activities of UGC-funded institutions to UGC. Taking into account HUCOM's views, UGC is reviewing relevant parts of the existing UGC Notes on Procedures, including the part relating to student hostels, and will make necessary revisions to ensure that public funds would not be used to subsidise self-financing activities.

Refund of Government rents and rates

96. EMB is studying UGC's draft guidelines on the eligibility criteria for refund of government rents and rates. Subject to the views of the Administration, UGC will consult institutions on the draft guidelines and will update the UGC Notes on Procedures accordingly in due course.

REPORT ON THE RESULTS OF VALUE FOR MONEY AUDITS (Report No. 43)

Chapter 1 – Control and monitoring of District Council expenses and related activities

Progress of implementing the removal of the administrative measure regarding tax deduction

97. The Home Affairs Department (HAD) has briefed the Chairmen, Vice-chairmen and members of the District Councils (DC) on Inland Revenue Department (IRD)'s plan to withdraw the administrative measure of allowing, without query, a tax deduction of 50% of the honorarium of DC members starting from the 2005-06 final assessment. DC members in general expressed grave concern that if the proposal was implemented immediately, many DC members and their assistants would not be able to fully understand and comply with the requirements for keeping receipts and claiming tax deduction.

98. In order to allow sufficient time for introducing appropriate arrangements which would not cause undue inconvenience and confusion to DC members, the Administration has decided to defer the withdrawal of the administrative measure from 2005-06 to 2006-07. All DC members have been informed of this implementation date. HAD and IRD are now co-ordinating a work plan to ensure the smooth implementation of the changes in 2006-07. DC members will be fully briefed on the detailed arrangements before the administrative measure is withdrawn.

99. Separately, in its Report No. 43 tabled on 23 February 2005, the PAC recommended that HAD should consider converting 50% of a DC member's honorarium to the Operating Expenses Allowance (OEA), which is non-taxable so that DC Members' honorarium, similar to those of ExCo and LegCo Members, is all taxable. As the recommendation involves fundamental changes to DC members' remuneration package, HAD has to consult the Independent Commission on Remuneration for DC Members (the Independent Commission). The Independent Commission, an advisory body comprising five non-official members, was set up in 2001 to advise on matters relating to the remuneration package for DC members. The consultation is expected to take about six months and HAD has started the preparatory work in March 2005.

Decision and progress made on the Public Accounts Committee's recommendation that 50% of a DC member's honorarium be converted to the OEA

100. As explained in paragraph 99 above, the recommendation involves fundamental changes to DC members' remuneration package and the Administration needs to consider carefully its implications. HAD is now consulting DC members on the recommendation. After carefully studying the full implications of the recommendation and DC members' views, HAD will consult the Independent Commission in September 2005 and it is expected that the Independent Commission will complete its deliberations within the same month. The Administration will report back to PAC the views of the Independent Commission on the recommendation.

Progress and results of the follow-up actions taken on the 354 cases of non-compliance with the HAD Guidelines on the reimbursement of OEA and Information Technology and Other Support Grant (ITOSG)

101. HAD has taken appropriate action on the non-compliance cases save for 72 cases which do not constitute a breach of the guidelines (the 72 cases were regarded as non-compliance cases by the D of A due to their different interpretation of the guidelines concerning issues on name cards and publicity items, etc). HAD has completed follow-up actions (such as recovering overpayment and seeking supplementary information) on all except six cases involving one DC member who has passed away and another who cannot be reached for the time being. We recommend deleting this part from the next progress report.

Progress of reviewing the HAD's Guidelines on the reimbursement of the OEA and ITOSG

102. The Administration agrees that improvements should be made regarding the processing of claims and reimbursement of OEA and ITOSG. To review the reimbursement guidelines, HAD conducted a briefing for DC members in January 2005 to collect their views. In response to DC members' request, HAD has also taken the opportunity to review the scope of the allowance and grant and the list of reimbursable items. HAD will put up the proposed revised guidelines to the Independent Commission in September 2005 for consideration.

Progress of reviewing the need to conduct annual checks for the Minor Environmental Improvement (MEI) projects requiring maintenance to a high standard and the granting of cash assistance to rural committees to undertake grass-cutting jobs

103. HAD completed a review on the need to conduct annual checks for MEI projects requiring high standard maintenance. Upon review, HAD has requested all District Officers to continue to inspect these MEI projects at least once a year for reasons of public safety. HAD also critically evaluated the need for granting cash assistance to rural committees to undertake MEI projects. It is considered that such arrangements should only be allowed under very special circumstances and when it is more cost-effective to do so. As the relevant reviews have been completed, we recommend deleting this part from the next progress report.

Progress of assisting DCs in drawing up short-term and long-term improvement plans for their respective DC Homepages

104. In response to the Administration's request, DCs have considered and implemented the recommendations on the improvement of DC Homepages, having regard to their respective district characteristics and degree of compliance with the Government Homepage Guidelines. A large majority of the recommended improvements have been made. HAD will continue to work with DCs to make further improvements to their Homepages. As this is an on-going commitment, we recommend deleting this part from the next progress report.

Chapter 2 – Government subsidies to the English Schools Foundation

Review of Government Subsidies to the English Schools Foundation (ESF) Schools

105. EMB will work closely with the ESF and expedite actions to complete the subvention review as soon as possible. Nevertheless, as we have said at the public hearings of the PAC, we consider that the ESF's governance reform deserves the top priority. Substantive discussions on the subvention issue would not be meaningful in the absence of a sound governance structure.

106. To this end, the ESF has embarked on its governance reform by establishing a designated task force in January 2005. According to the ESF's work plan, consultation within the ESF community would be held in May 2005 and the new governance arrangements are expected to be implemented by September 2006.

107. Meanwhile, we would continue with our subvention review and would duly consult stakeholders and the LegCo when ready. Pending an agreement with the ESF on its long-term subvention arrangement, we would continue to require the ESF to deliver efficiency savings and implement the agreed reductions in subvention to the ESF.

Freezing of Government Subsidies to the ESF and the Recent Fact-finding Exercise

108. The fact-finding exercise, which started in 2003, has been completed. Both the ESF and the Administration agree that apart from the investigative work done in 2003, both the Audit Report and the PAC Report have provided useful complementary materials to the exercise. We have already provided a copy of the finalised report of the fact-finding exercise to the PAC for information.

Chapter 3 – Corporate governance and Headquarters administration of the English Schools Foundation

Corporate Governance

109. It has been our practice to avoid micro-managing subvented organisations. Consistent with existing practice vis-à-vis other school sponsors, we would also review our long term role on the ESF Foundation and the ESF Executive Committee (ExCom).

110. That said, we would be happy to contribute our knowledge and experience in school administration, and take actions where appropriate, with a view to driving improvements on the part of the ESF in its governance and cost effectiveness.

Others

111. The remuneration review is under way. Nevertheless, in respect of the PAC's recommendation that paid members of the ESF should not sit on the Remuneration Study Group (RSG), the ESF explained that it was not possible to alter the composition of the RSG mid-stream without seriously impairing the Group's ability to report to the ESF ExCom in June 2005. The PAC's recommendation could be considered in future.

Encl. 1 112. As for other recommendations of the PAC, the ESF has drawn up an action plan at Enclosure 1. Among other things, the ESF has already put in place the recommended improvements in its internal audit arrangements. The ESF has also commissioned a full review of the Foundation office.

Chapter 4 – School administration of the English Schools Foundation

Encl. 2 113. The ESF's action plan in response to the PAC Report is at Enclosure 2. Among the improvement measures, the ESF has agreed in principle to the recommendations on adopting a bidding system for budget allocation and establishing formal policies and control procedures, and will in this context produce guidelines on school development planning. It has also agreed in principle to the recommendations on salary increments and would follow up in accordance with the action plan.

Chapter 5 – Grant of land at Discovery Bay and Yi Long Wan

Change in concept of the Discovery Bay (DB) development

114. The D of A recommended that in respect of a land grant for a development involving a particular concept, D of L should incorporate effective provisions into the lease conditions or other contract documents so that the provisions will be enforceable for implementing the concept. In this regard, Lands D has taken steps to ensure that in future, where a Master Layout Plan (MLP) is required under the lease, the Special Conditions of the relevant land leases will state clearly that D of L has the right to demand a premium for amendments, if appropriate. Lands D has also amended accordingly the MLP clause in the Lands Administration Office Instructions (LAOI), which are Lands D's internal guidelines.

115. The D of A recommended that where a land grant for a development involving a particular concept approved by the Executive Council (ExCo) has been made, D of L should seek ExCo's endorsement before approving major changes to the concept. D of L will implement this recommendation in applicable cases.

116. The Administration noted that the D of A's Report had not recommended that ExCo's endorsement of the changes of the development concept of the DB development be sought retrospectively as much of the DB development had already taken place. However, in view of the PAC's remarks, the Administration's undertaking and for the sake of putting the matter beyond doubt, the Administration has sought and obtained ExCo's endorsement of the change of DB's development concept. The Administration also assured ExCo that the future development of the DB's remaining area will be based on the land use planning parameters as set out in the prevailing Outline Zoning Plan and the lease conditions and MLP in force at the time. Looking forward, as our town planning system has become mature (with a clear process for preparing statutory plans and channels for hearing public views) and a system of enhanced accountability and transparency is now in place, it is unlikely that the experience of the DB development would recur elsewhere.

Provision of facilities in the DB development

117. The D of A recommended that D of L should assess the implications of the deletion of facilities specified in the lease conditions before approving MPL amendments, having regard to the fact that any deletion may have premium implications.

118. As a standard practice, Lands D consults relevant departments and assesses land premium implications before approving deletion of facilities specified in the lease conditions.

Site boundaries of DB and Yi Long Wan developments

119. The D of A recommended that D of L should draw up a programme to complete the setting out of boundaries for sites granted but whose boundaries have not yet been set out.

120. There are about 300 lots whose lot owners have not requested the setting out of boundaries prior to development. Out of these lots, about 80% have completed development. It would not be appropriate to set out the boundaries, but rather the building lines of the developments will be surveyed to identify any encroachment on Government land. Lands D will set out the lot boundaries for the remaining 20% of cases which have not been developed. As at May 2005, about 40% of the outstanding work has been completed. The rest is scheduled for completion by September 2005.

121. The D of A recommended that D of L should stipulate in the LAOI the requirement that the boundaries of a government site should be set out before disposal of the site, and the requirement that site boundaries should be set out in phases, if necessary. Lands D has amended the LAOI as recommended by the D of A.

122. The D of A recommended that D of L should promptly agree the survey data with Developer A with a view to setting out the exact boundaries of the DB site.

123. It is not necessary to agree the survey data with Developer A since this is the first setting out, which should be based on the original grant plans. The setting out of the lot boundary for the whole of DB was completed and Developer took over the setting out marks at the end of March 2005.

124. Regarding timeliness of rectification measures, the D of A recommended that D of L should take timely land control action to remove any encroachment on government land. If land control action is not appropriate, D of L should take other action (such as the issuance of an STT) to rectify the encroachment. D of L agrees with the recommendations and will implement them in appropriate future cases.

125. As regards site boundaries of large scale developments, the D of A recommended that D of L should implement effective measures to deter encroachment on government land and implement a monitoring system to identify and rectify land encroachments. Lands D is actively considering measures to implement the D of A's recommendations.

126. The D of A recommended that D of L should work out a practical solution with Developer B and the individual unit owners of the Yi Long Wan development to resolve the land encroachment problem. Lands D is surveying the encroachments of the Yi Long Wan development. The survey will be completed by the end of May 2005. Lands D is drawing up a practical solution to resolve the land encroachment problem and will take the matter forward after completion of the survey.

127. The D of A recommended that D of L should seek legal advice prior to issuing the Certificate of Compliance (C of C) and pre-sale consent, if problems with the site boundary of a development are found. Lands D has amended the LAOI to implement this recommendation.

128. As regards the D of A's recommendation that D of L should review the effectiveness of using the C of C as a control measure against land encroachment, we are actively considering the matter.

ESF's Action Plan in response to Report of the Public Accounts Committee
Chapter 3 – Corporate governance and Headquarters administration of the English Schools Foundation

Enclosure 1

	Recommendations	Response from ESF	Action Plan	Responsible	Forecast Completion/ Comments	Complete
1.	Corporate governance					
	a. Conduct a review on the role of the Foundation Office including the need for its continued existence;	ESF agrees. CEO will review the management of the Foundation Office	Review: April-June 2005 for the Executive Committee to consider in June 2005, and implementation in September 2005.	ExCom		
	b. Adopt measures to ensure that external members will constitute a majority at each of the respective meetings of the Foundation and the ExCom;	This is agreed and formed the basis of the work of the Governance Reform Task Force.	Agreed in principle by Foundation Meeting on 9 December 2004			
	c. Issue reminders to the related organisations if the attendance rates of their representatives at Foundation meetings are low;	Agreed: reminder will be issued before Foundation meetings	By June 2005			
	d. Amend the Regulations of the English Schools Foundation to the effect that ESF staff members of ExCom would abstain from voting on matters concerning ESF staff benefits at its meetings;	To be considered by Governance Reform Task Force	(b), (d) and (e) will be considered by the Governance Reform Task Force by April 2005, from which a consultation paper will be published in May 2005. Foundation will consider the reform in June 2005	ExCom		

**ESF's Action Plan in response to Report of the Public Accounts Committee
Chapter 3 – Corporate governance and Headquarters administration of the English Schools Foundation**

Enclosure 1

	Recommendations	Response from ESF	Action Plan	Responsible	Forecast Completion/ Comments	Complete
	<p>e. Consider repealing section 10(2) of The English Schools Foundation Ordinance so that subsidiary legislation in the form of regulations made under the Ordinance is required to be published in the Gazette and tabled in the Legislative Council.</p> <p>f. Ensure that its internal audit office is staffed by well qualified and experienced personnel reporting directly to the audit committee; and</p> <p>g. Required its internal audit office to prepare annual audit programmes, to be approved by the audit committee, for conducting reviews covering major and high-audit-risk activities of the ESF, including the ESF Educational Services Limited.</p>	<p>To be considered by Governance Reform Task Force</p> <p>The Executive Committee of the Foundation accepts that the ESF's governance should be reviewed with a view to ensuring that it is in line with the best practices</p>	<p>Actioned – Audit Committee approved by Executive Committee at the meeting held on 23 November 2004. The first meeting of the Audit Committee was on 7 December 2004. It has since met KPMG, the external auditors, and had substantive discussions with management on 17 December 2004 and 7 January 2005.</p>	<p>ExCom</p>		

ESF's Action Plan in response to Report of the Public Accounts Committee
Chapter 3 – Corporate governance and Headquarters administration of the English Schools Foundation

Enclosure 1

	Recommendations	Response from ESF	Action Plan	Responsible	Forecast Completion/ Comments	Complete
2.	<p>Financial Management</p> <p>a. Take action to reduce its net current liabilities; and</p> <p>b. Adopt a more prudent method of budgeting and avoid relying on bank overdraft.</p>	<p>The ESF has stated that:</p> <p>(a) the Executive Committee of the Foundation will continue to carefully:</p> <p>(i) monitor ESF budgets and current liabilities; and</p> <p>(ii) determine prudent limits to borrowing; and</p> <p>(b) no commercial organisation would deny itself access to credit which can help maximise value for shareholders.</p>	<p>The Executive Committee will review this recommendation when it reviews the First Stage Estimates 2005/06 at the meeting of 22 March 2005.</p>	<p>ExCom</p>		

**ESF's Action Plan in response to Report of the Public Accounts Committee
Chapter 3 – Corporate governance and Headquarters administration of the English Schools Foundation**

Enclosure 1

	Recommendations	Response from ESF	Action Plan	Responsible	Forecast Completion/ Comments	Complete
3.	<p>Staff remuneration and recruitment</p> <p>a. The ESF should take into consideration Audit's findings on the remuneration of the teaching staff of the seven largest private international schools, and immediately conduct a review of the remuneration packages of its senior staff with a view to ensuring that they are broadly in line with those of similar posts in other local educational organisations;</p> <p>b. The membership of the RSG should not be drawn from ESF's own teaching and non-teaching staff; and</p> <p>c. The ESF should implement as soon as possible new remuneration packages on newly recruited teaching staff, and on existing teaching staff over a period of time, taking into account the effects of the new remuneration packages on their financial commitments;</p>	<p>ESF has established a Remuneration Study Group (RSG) to conduct a review of remuneration packages in local international schools and in countries from which we recruit</p> <p>The ESF has stated that the remuneration packages of its senior staff:</p> <ol style="list-style-type: none"> 1. have been reviewed by its Pay Review Body; and 2. will be within the purview of its RSG <p>The ESF has stated that RSG's membership was agreed by ExCom and reflects the need for transparency for all stakeholders. ExCom will decide on pay levels.</p> <p>To be considered by RSG</p>	<p>(a) <u>Actioned</u></p> <p>RSG is due to report in June 2005.</p> <p>(c) <u>Actioned</u></p>	<p>RSG/ExCom</p> <p>ExCom</p> <p>RSG/ExCom</p>	<p>June 2005</p>	

**ESF's Action Plan in response to Report of the Public Accounts Committee
Chapter 3 – Corporate governance and Headquarters administration of the English Schools Foundation**

	Recommendations	Response from ESF	Action Plan	Responsible	Forecast Completion/ Comments	Complete
	<p>d. Asks the ESF to forward the report of the RSG to the Committee. The Committee will then invite the Director of Audit to review the report and to inform the Committee of his comments.</p> <p><u>Urges the ESF to:</u></p> <p>a. record, if given, the approval of the ExCom in its meeting minutes regarding extra payments to ESF senior staff upon their leaving the ESF.</p> <p>b. enter all minutes of ExCom meetings in its minute books;</p> <p>c. refrain from delegating to any person the authority to agree on the terms of cessation of a senior staff member without the approval of the ExCom; and</p> <p>d. Ensure that the approval of the ExCom is obtained before making extra payments to its senior staff upon their leaving the ESF.</p>	<p>Agreed</p> <p>The ESF agrees with the audit recommendations in paragraph 4.32. It has stated that:</p> <p>(a) in the past, the agreement of the Chief Executive of the ESF and the Chairman/Vice-chairman of the Foundation was sought before making extra payments to ESF senior staff upon their leaving the ESF for contractual or confidentiality reasons; and</p> <p>(b) it will record the approval of the Executive Committee of the Foundation in its meeting minutes regarding extra payments to ESF senior staff upon their leaving the ESF, if this does not infringe legally binding agreements.</p>	<p>RSG will forward their report to PAC in June 2005</p> <p><u>Actioned</u> – 17 December 2004.</p>	<p>RSG/ExCom</p> <p>ExCom</p>		

ESF's Action Plan in response to Report of the Public Accounts Committee
Chapter 3 – Corporate governance and Headquarters administration of the English Schools Foundation

Enclosure 1

	Recommendations	Response from ESF	Action Plan	Responsible	Forecast Completion/ Comments	Complete
4.	<p>Staff housing and medical benefits</p> <p>a. Consider offering housing allowance to its staff instead of providing staff quarters; and</p> <p>b. Strictly adhere to the maximum monthly rent entitlement of its staff;</p> <p>c. Recommends that the ESF should formulate a policy and a plan for disposing of its surplus staff quarters.</p>	<p>The ESF agrees with the audit recommendations in paragraph 5.14. It has stated that:</p> <p>it has taken action in respect of the audit recommendations in paragraph 5.14(a), (b) and (c). In the 2004-05 ESF financial year, three newly-appointed principals, whose predecessors were previously accommodated in ESF-leased quarters, have been allocated with ESF-owned quarters.</p> <p>The ESF has stated that:</p> <p>the Executive Committee of the Foundation will review carefully the audit recommendation in paragraph 5.31(a), having regard to the long-term needs of the ESF and the financial security conferred by the ownership of such fixed assets.</p>	<p>(a) to (c) Actioned.</p> <p>A paper will be submitted in respect of Items 5.31(a) and (b) to Executive Committee by June 2005.</p>	<p>ExCom</p> <p>ExCom</p>		

**ESF's Action Plan in response to Report of the Public Accounts Committee
Chapter 3 – Corporate governance and Headquarters administration of the English Schools Foundation**

	Recommendations	Response from ESF	Action Plan	Responsible	Forecast Completion/ Comments	Complete
5.	<p>Entertainment expenses</p> <p>Recommends that the ESF should set up a new system so that only designated staff of the ESF may submit claims for reimbursement of entertainment expenses on a need basis.</p>	<p>The ESF has stated that: the Executive Committee of the Foundation will consider the audit recommendations in paragraph 7.13(a), (b) and (d) as part of a further review of entertainment expenses. The present ESF arrangement for setting annual individual budgets for entertainment expenses only applies to 22 ESF designated staff out of a total of 1,218 ESF staff.</p>				

**ESF's Action Plan in response to Report of the Public Accounts Committee
Chapter 4 – School administration of the English Schools Foundation**

Enclosure 2

	Recommendations	Response from ESF	Action Plan	Responsible	Forecast Completion/ Comments	Complete
1.	<p>Strategic planning, budgeting and cash management</p> <p><u>Urges the ESF to require its schools:</u></p> <p>a. which do not have a bidding system for assessing the funding needs of their departments to adopt such a system for budget allocation purpose; and</p> <p>b. to establish formal policies and control procedures on virements of funds between budgets.</p>	<p>Guidelines on school development planning will be produced through a working group to assist schools in their planning.</p>	<p>The Educational Development Director will contribute a group to provide guidance by 30 June 2005.</p>	<p>EDD</p>	<p>Guidance report by 30 June 2005</p>	
2.	<p>Human resources management, other income and support</p> <p><u>Urges</u></p> <p>ESF to devise a mechanism for awarding salary increments to its staff.</p>	<p>The ESF agrees in principle with the audit recommendation and has stated that 74% of ESF staff are on the maximum incremental point.</p>	<p>Implementation of this recommendation is dependent on the future introduction of the proposed Performance Development Plans for staff.</p>	<p>HRD</p>		