

THE GOVERNMENT MINUTE

in response to the

**REPORT NO. 45 OF
THE PUBLIC ACCOUNTS COMMITTEE**

dated February 2006

10 May 2006

**THE GOVERNMENT MINUTE IN RESPONSE TO THE
PUBLIC ACCOUNTS COMMITTEE (PAC) REPORT NO. 45
DATED FEBRUARY 2006**

**REPORT ON THE RESULTS OF VALUE FOR
MONEY AUDITS (Report No. 42)
MATTERS OUTSTANDING**

Harbour Area Treatment Scheme Stage I (Chapter 3 of Part IV of PAC Report No. 42)

Post-implementation review of Harbour Area Treatment Scheme (HATS) Stage 1

All of the improvement measures recommended by the review, including updating Drainage Services Department (DSD) Technical Circulars for improving project management and budgetary control of similar time-critical projects, have been effected. We recommend deleting this part from the next progress report.

Provision of contract instruments and progress payment

2. DSD has issued DSD Technical Circular No. 8/2004 to set out requirements and guidelines on management of progress payment and contract instruments such as parent company guarantee and performance bond. As action has been completed, we recommend deleting this part from the next progress report.

The use of forfeited plant in completion contracts

3. The Environment, Transport and Works Bureau (ETWB) has promulgated Technical Circular (Works) Nos. 9/2004 and 16/99C to set out respectively guidelines to deal with plant ownership and the use of forfeited plant on completion contracts. As action has been completed, we recommend deleting this part from the next progress report.

Budgetary control over Government Contracts

4. DSD has issued an internal instruction, which will be circulated regularly, to strengthen budgetary control over Government contracts.

5. To facilitate the Legislative Council (LegCo)'s monitoring of the use of funds for works projects, the Administration has introduced a mechanism to provide LegCo with quarterly reports on those contracts awarded when the difference between the accepted tender prices and original estimated provisions in the approved project estimate equals/exceeds \$15 million or 10% of the latter, whichever is the greater.

6. To enhance accountability and transparency, ETWB has promulgated Technical Circular (Works) No. 29/2003 to set out the conditions under which Government departments may disclose to the PAC information in connection with dispute settlements.

7. As actions have been completed, we recommend deleting this part from the next progress report.

Site investigation for works projects

8. The Geotechnical Engineering Office (GEO) of the Civil Engineering and Development Department has issued GEO Technical Guidance Note (TGN) No. 24 which provides guidelines on improved methodology for conducting site investigations for tunnel projects. DSD will follow the TGN and consult GEO regularly when conducting comprehensive site investigation for HATS Stage 2. As action has been completed, we recommend deleting this part from the next progress report.

Monitoring of impact of HATS Stage 1 on the water quality of Victoria Harbour

9. The Environmental Protection Department is continuing with the water quality monitoring on the impacts due to the flows from HATS Stage 1. We recommend deleting this part from the next progress report.

Warning the public not to swim at the closed gazetted beaches

10. The Leisure and Cultural Services Department (LCSD) has decided to make the on-site announcement and display of notice at the closed gazetted beaches an on-going action. We recommend deleting this part from the next progress report.

Provision of disinfection facility in HATS Stage 2

11. The Administration has decided to implement HATS Stage 2 in two phases. HATS Stage 2A would include the provision of the disinfection facilities in advance of the main works, the implementation of which is subject to the acceptance by the community the full recovery of the recurrent costs through sewage charges.

12. DSD is now carrying out an Environmental Impacts Assessment (EIA) study for advancing part of the disinfection facilities and will complete the EIA study and the processes under the EIA Ordinance in 2006.

Hong Kong Harbour Fest (Chapter 4 of Part IV of PAC Report No. 42)

The case for considering disciplinary action against any civil servant

13. The disciplinary proceedings surrounding the Harbour Fest case, ordered by the Secretary for the Civil Service (SCS) under section 10 of the Public Service (Administration) Order (PS(A)O), has been completed. When notified of the decisions made by the SCS on the outcome of the proceedings including the level of punishment, the officer concerned has appealed to the Chief Executive under section 20 of the PS(A)O against SCS' decisions. The appeal is being dealt with. The Administration will give an account of the outcome of the disciplinary proceedings to the LegCo after the appeal has been disposed of.

Provision of aquatic recreational and sports facilities (Chapter 5 of Part IV of PAC Report No. 42)

To improve water quality of the gazetted beaches in Tsuen Wan District

14. The Administration plans to implement Stage 2 of HATS in two phases, subject to the acceptance by the community of the full recovery of the recurrent costs of the scheme through sewage charges. HATS Stage 2A would include the advancement of the disinfection facilities.

15. DSD is now carrying out an EIA study for advancing part of the disinfection facilities. The EIA study and the statutory EIA processes under the EIA Ordinance are scheduled to complete in 2006. We expect that the water quality of the gazetted beaches in Tsuen Wan will improve once the advanced disinfection facilities become operational.

De-gazetting of the Rocky Bay Beach

16. LCSD has demolished all its structures and buildings at the Rocky Bay Beach and will arrange de-gazetting of the beach upon resolution of the land issue for returning the beach to the Lands Department (Lands D).

De-gazetting of the Kiu Tsui Beach on Sharp Island

17. A private developer had once shown interest in developing the Sharp Island into a resort. The proposed development might affect the Kiu Tsui Beach. LCSD will keep in view the future development of Sharp Island and consider de-gazetting the Kiu Tsui Beach when required.

Alignment of fees and charges of all swimming pool complexes

18. LCSD is reviewing the fee structure and evaluating the financial implications arising from various options of fee alignment for public swimming pools together with other recreational facilities in one go.

Closing five non-heated outdoor swimming pool complexes in the urban areas in November

19. The Central and Western District Council (DC) has reservation on the proposal to close the Kennedy Town Swimming Pool entirely in November but has agreed to keep only the morning sessions open during the month. In addition, the Kowloon Tsai Swimming Pool and the Victoria Park Swimming Pool have been closed for major maintenance since 1 September 2005 and 1 November 2005 respectively. The former will be re-open to the public in July 2006 while the latter in May 2006. LCSD will consult the Eastern DC and the Kowloon City DC respectively again later this year on the proposal to close these two swimming pools in November each year.

Swimming training courses

20. LCSD will review the fees of swimming courses in the overall review exercise on the fees and charges for recreation and sports programmes in one go.

Continued development of new programmes to promote public participation in water sports activities

21. LCSD will continue to organise various thematic programmes and tailor-made sea expedition programmes to promote water sports activities. A new VCD introducing and promoting water sports activities was produced and rolled out. As this is an on-going task of LCSD to promote water sports activities, we recommend deleting this part from the next progress report.

Periodic conduct of user opinion surveys on the usage and hiring charges of the various types of craft at the four water sports centres

22. LCSD collects users' opinions on each programme and conducts user surveys to enhance the service provided at water sports centres as an on-going exercise. We recommend deleting this part from the next progress report.

Deployment of surplus staff during the winter months

23. Under the Winter Works Programme of 2005-06, LCSD had deployed surplus lifeguards to undertake lifesaving duties in those aquatic venues which were still open in winter, attend training courses, perform first-aid duties at sports centres/sports grounds, conduct talks to school students and arrange visits for primary school students to swimming pools for publicising water safety and hygiene measures, and perform miscellaneous duties at those swimming pools which were closed in winter. Apart from undertaking operational duties, the lifeguards had taken turn to clear time-off accumulated during the peak swimming season and vacation leave. The records on all deployment of duties were properly documented. As this has become an established arrangement, we recommend deleting this part from the next progress report.

Training, employment and residential services for people with disabilities
(Chapter 6 of Part IV of PAC Report No. 42)

Outsourcing service units for people with disabilities (PWD)

24. The Social Welfare Department (SWD) has completed the review and would not pursue the outsourcing plan for the remaining sheltered workshop-cum-hostel operated by SWD in the near future, taking into account the staffing implications and the Department's organisational changes in the coming two years. We recommend deleting this part from the next progress report as no further follow-up is required.

Implementing private general-practitioner scheme in service units

25. As announced in the Chief Executive's 2005-06 Policy Address, the Government will launch a visiting medical practitioner scheme in subvented residential care homes for the disabled to provide primary medical care and support to residents of these homes. The scheme is scheduled for implementation in April 2006. We recommend deleting this part from the next progress report as PAC's recommendation has been suitably followed up.

Review of Marketing Consultancy Office (Rehabilitation) (MCO(R))

26. MCO(R) continues to refocus its services in accordance with the recommendations of the Review Report. From April 2005 to January 2006, MCO(R) secured job orders, tender contracts and promotional sales of a total value of around HK\$12.5 million. Continuous efforts are made to assist the non-governmental organisations (NGOs) in setting up social enterprises and to promote the brand name of "SEPD" (the trademark for products produced by PWDs). During the period, MCO(R)

assisted NGOs in setting up six social enterprises under the “Enhancing Employment of People with Disabilities through Small Enterprise” Project and organised 24 media reports and 55 promotional sales activities. SWD will continue to monitor the progress closely in consultation with the Advisory Committee on Enhancing Employment of People with Disabilities. We recommend deleting this part from the next progress report as PAC’s recommendation has been suitably followed up.

Involvement of external personnel for advice to rehabilitation service units

27. In addition to Yuen Long and Central, Western/Islands Districts, SWD will extend the scheme on ‘Service Quality Groups for Residential Services for People with Disabilities’ to Eastern/Wanchai and Sham Shui Po Districts in May 2006. DC members and prominent local personnel of these two districts would be invited to conduct visits to the residential rehabilitation homes in these districts. The visitors will give advice on the operation of these homes with a view to enhance the homes’ service quality. We recommend deleting this part from the next progress report as PAC’s recommendation has been suitably followed up.

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

University Grants Committee funded institutions - Governance, strategic planning and financial and performance reporting (Paragraphs 3 and 4 of Part IV of PAC Report No. 43)

Corporate governance of institutions

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

28. The Court of the University of Hong Kong (HKU) agreed in December 2005 that the University of Hong Kong Ordinance should be amended so that the descriptions of the respective roles of the Court and the Council therein would be consistent with their powers as set out in the relevant statutes. HKU will take forward the legislative amendments in accordance with the decision of the Court.

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

29. As reported in the last progress report, the City University of Hong Kong (CityU), the Lingnan University (LU), the Chinese University of Hong Kong (CUHK), the Hong Kong Polytechnic University (PolyU) and the Hong Kong University of Science and Technology (HKUST) have already completed their respective “fitness for purpose” reviews on their governance structures. The status of the reviews for the other two institutions is summarised as follows –

- Hong Kong Baptist University (HKBU)
- The HKBU Review Committee on the Governance Structure completed the first set of recommendations resulting from the “fitness for purpose” review on governance structure. The report was approved by the HKBU Council in October 2005. The HKBU would enhance the Council’s role in strategic planning ; and
 - The second part of the review covering other areas including periodic review of the effectiveness of the governing body, functions and membership of the HKBU Court, the relationship between the Court and Council, and effectiveness of the Senate, etc. is targeted for completion within 2006.

- The Hong Kong Institute of Education (HKIED)
- The HKIED Council approved the proposed legislative amendments regarding the composition of the HKIED Council and functions of the Academic Board in February 2006. The Institute has already written to seek the Administration's advice on the legislative amendment process.
 - As HKIED has completed its "fitness for purpose" review, we recommend deleting the part on HKIED from the next progress report.

Membership, attendance and attendance records in relation to Council meetings

30. As reported in the last progress report, the attendance records of Council Members of LU, CUHK, HKIED, PolyU, HKUST and HKU have already been made available to the public on the university websites and/or annual reports. CityU has also agreed to make available the attendance records of Council Members to the Administration upon request, and to publish the attendance records in its annual report. As for HKBU, the University Council decided in October 2005 that attendance records of Council Members would be made available to relevant bodies upon request with justified grounds.

31. As all University Grants Committee (UGC)-funded institutions have implemented positive measures to make available attendance records of their respective Council Members, we recommend deleting this part from the next progress report.

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

32. As reported in the last progress report, CityU, CUHK and HKU have already established their respective audit committees. HKBU Council also established an audit committee in December 2005.

33. As all UGC-funded institutions have now set up their audit committees, we recommend deleting this part from the next progress report.

Proposal to conduct periodic reviews of the effectiveness of governing bodies

34. As reported in the last progress report, CityU, LU, CUHK, HKIED, PolyU, 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. As regards HKBU, this issue will be covered in the second part of the review on governance structure which is targeted for completion within 2006.

University Grants Committee funded institutions - General administrative services
(Paragraphs 5 and 6 of Part IV of PAC Report No. 43)

Provision of senior staff quarters (SSQ)

UGC Working Group on Housing Arrangement After Deregulation of University Salaries

35. The Administration and the Secretary-General, 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 salaries. Subject to their deliberation, the proposal will be submitted to the Working Group on Housing Arrangement After Deregulation of University Salary for consideration.

Student hostels

Review of the existing policy on students' grants and loans

36. The advisory committee that advises the Administration on the operation of the Local Student Finance Scheme recommended, amongst other things, that needy students should be provided with an accommodation expenses loan. This recommendation would be considered in the context of a consultancy study on the establishment of a simpler, more viable and sustainable mechanism for setting and adjusting the levels of student financial assistance.

University Grants Committee funded institutions - Staff remuneration packages and stipends (Paragraphs 7 and 8 of Part IV of PAC Report No. 43)

Pay structure

Institutions' reviews of their pay structure

37. As reported in the last progress report, CityU, HKBU, LU, CUHK, PolyU and HKUST have already completed their reviews on the pay and reward structure of their staff. The status of the review for the other two institutions is summarised as follows –

- HKIED – The HKIED Council approved the new salary structure for non-academic staff in April 2006 after taking into account staff members' views on the proposal. The new structure will be applied to both serving and newly-appointed staff with effect from 1 July 2006.

- As HKIEd has completed its pay review for all staff, we recommend deleting the part on HKIEd from the next progress report.

HKU

- HKU has commissioned a consultant to conduct a salary review for non-academic staff, and the recommendations are being drawn up. The review is targeted for completion by mid-2006.

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

38. As reported in the last progress report, the PolyU Council had decided to amend section 9(3)(c) and other relevant sections of The Hong Kong Polytechnic University Ordinance to define more clearly the Council's role to approve the University's policy governing the terms and conditions of service of staff. PolyU is in the process of initiating the necessary legislative amendments.

Administration of leave

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

39. As reported in the last progress report, CityU, HKBU, LU, CUHK, PolyU and HKUST have taken positive measures to tackle the problems associated with excessive leave entitlements and encashment of leave. The status of the review for the other two institutions is summarised as follows –

HKIEd

- HKIEd Council approved in April 2006 the new benefits structure for both academic and non-academic staff, which included vacation leave entitlement for staff, for implementation with effect from 1 July 2006. All serving staff will be invited to decide between encashing or clearing (over a two-year period) untaken leave in excess of their respective entitlements under the new leave accumulation policy.

HKU

- HKU Council considered the problem of excessive leave entitlement in December 2005. As leave entitlement was part of the contractual agreement, the University considered that encashment of long leave followed by (the much reduced) compulsory annual leave was the most practical and effective way of addressing the problem. The HKU Council has approved the launching of the third round of

long leave encashment with a view to encouraging eligible staff members to move from the Long Leave Scheme to the Annual Leave Scheme.

40. As all institutions have implemented positive measures to address the problem of excessive leave entitlements, we recommend deleting this part from the next progress report.

Financial performance of the Post Office (Paragraphs 3 and 4 of Part V of PAC Report No. 43)

The results of the comprehensive review of postal policy and services

41. 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 PAC, and introduce measures to respond to the development of the postal services market and improve PO's financial performance and operation as a trading fund. Apart from reviewing its network of branch offices' operations, PO has also introduced revenue generation and other cost-cutting measures, including measures to minimize the impact of the new terminal dues adopted by the Universal Postal Union. These measures have shown results. In 2003-04 and 2004-05, PO achieved after-tax profits of \$43 million and \$257 million respectively, and expects to sustain its financial performance in 2005-06. We shall continue to identify ways to respond to the challenges faced by PO.

Provision of slaughtering facilities for supplying fresh meat (Paragraphs 5 and 6 of Part V of PAC Report No. 43)

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

42. Since December 2005, the Architectural Services Department (Arch SD) has, in consultation with the Food and Environmental Hygiene Department (FEHD), engaged a consultant to examine the feasibility of modifying the SSSH to cater for the increase in the slaughtering throughput of pigs. The consultancy will be completed in the second quarter of 2006.

43. FEHD will consider the findings of the study and other related factors before making recommendations on the feasibility of centralising slaughtering operation of livestock at the SSSH and the way forward.

Services provided by the Official Receiver's Office (Paragraphs 7 and 8 of Part V of PAC Report No. 43)

44. The Bankruptcy (Amendment) Ordinance 2005 expects to come into operation after the corresponding subsidiary legislation and the administrative logistics are made ready in late 2006. The Ordinance will facilitate the outsourcing of debtor-petition summary (i.e. with assets not likely to exceed \$200,000) bankruptcy cases to private sector insolvency practitioners (PIPs) by the Official Receiver's Office (ORO). ORO will review the question of fees and cost recovery rates after the implementation of the outsourcing.

45. ORO will also consider the proposed "cab-rank" system and some form of authorization of PIPs 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 9 and 10 of Part V of PAC Report No. 43)

46. 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 remain at \$1,162 million. The Security Bureau wrote to the Head of Hong Kong Sub-office of the UNHCR again in March 2006 for this purpose.

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

Footbridge connections between five commercial buildings in the Central District (Paragraphs 11 and 12 of Part V of PAC Report No. 43)

48. 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.

49. The Administration is discussing with the railway corporations the implementation details of the proposed SCL scheme in the context of the proposed rail merger. We shall consider the way forward for the footbridge proposal in conjunction with the SCL Scheme.

Water purchased from Guangdong Province (Paragraphs 17 and 18 of Part V of PAC Report No. 43)

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

50. On 12 April 2006, we reached a new agreement with the Guangdong (GD) side on the details of Dongjiang (DJ) water supply arrangements for the period up to 2008. The main features include –

- (a) A reliable and fully flexible supply of DJ water to meet the actual needs of Hong Kong up to 2008 is guaranteed based on a package deal as follows –
 - (i) the total lump sum for 2005 is \$2,529.7 million (i.e. the same as the 2004 level); and
 - (ii) the annual total lump sum for 2006 to 2008 will be \$2,494.8 million.
- (b) The ultimate annual DJ water supply quantity will be maintained at 1 100 million cubic metres (mcm) whilst the target date for achieving this objective would be subject to future review.
- (c) The GD side will strive to upgrade the quality of DJ water supply to the latest national Type II Standard of GB 3838-2002.

51. The benefits of the new DJ water supply arrangements include –

- (a) Greater flexibility in the supply quantities

The GD side will allow greater flexibility in the daily supply rate to tie in with seasonal fluctuations in the local yield. We will inform the GD side on a monthly basis our demand for DJ water according to the actual requirements. This will enable us to have better control of the storage level in Hong Kong, thereby minimising the overflow more effectively and saving pumping costs.

- (b) Price reduction

Despite the anticipated inflation, the annual water price for 2006 to 2008 has been reduced by \$34.9 million to \$2,494.8 million when compared with the 2004 level (i.e. \$2,529.7 million), thereby accruing a total potential saving amounting to \$104.7 million for this period.

(c) Guaranteed long-term water supply

By retaining the ultimate supply of 1 100 mcm to be achieved at a target date subject to review, the long-term supply of DJ water to Hong Kong to cope with future development has been reassured.

(d) Higher water quality standard

Under the new agreement, the GD side will strive to supply water of a higher standard, viz. the latest national Type II Standard of GB 3838-2002. The quality of water will therefore be enhanced.

52. As the Administration has addressed the concerns and recommendation of the PAC, we recommend deleting this item from the next progress report.

Provision of legal aid services (Paragraphs 21 and 22 of Part V of PAC Report No. 43)

Some measures to contain the costs of legal aid

53. The Legal Aid Department (LAD)'s one-year Pilot Scheme on mediation of legally aided matrimonial cases (Pilot Scheme) ended in mid-March 2006. The Steering Committee comprising representatives from the Administration Wing, the LAD, the Judiciary and the Home Affairs Bureau will assess, inter alia, the cost-effectiveness and full implications of extending legal aid funding to cover mediation of matrimonial cases. As it will take time for the proceedings involving cases under the Pilot Scheme to conclude, the LAD aims to complete the evaluation of the outcome of the Pilot Scheme by 2007-08. We will report to the relevant LegCo Panel when the evaluation findings are available. We recommend deleting this item from the next progress report.

Residential services for the elderly (Paragraphs 23 and 24 of Part V of PAC Report No. 43)

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 (HA) and the SWD regarding the provision of infirmary care

54. We consulted the Elderly Commission and the LegCo Panel on Welfare Services earlier on our proposal to launch the trial scheme. In the light of feedback from Panel members and the sector during the consultation process, we are considering the best way to bring forward the proposal. In particular, we are working with the HA on the appropriate level of medical support for the proposed infirmary care services under the trial scheme. We aim to come up with detailed proposals in the coming few months.

The Customs and Excise Department's efforts to protect government revenue from dutiable commodities (Paragraphs 25 and 26 of Part V of PAC Report No. 43)

Customs audits of oil companies

55. The Customs and Excise Department (C&ED) has applied the system-based approach (SBA) model to all oil companies. The SBA model has proven to be practical and effective in auditing oil companies. We recommend deleting this part from the next progress report.

Trial Scheme of "Red and Green Channels"

56. With effect from 1 November 2005, C&ED has implemented a new mode of Customs clearance service for passengers, the Red and Green Channels System (the System), at all entry points. The majority of the passengers have adapted to the new mode of clearance. Moreover, the daily duties and compounding penalties collected, dutiable commodities abandoned, and the number of prosecution cases have increased after the implementation of the System. This shows that the System has successfully achieved the objectives of facilitating passenger clearance and enhancing revenue protection on dutiable goods. We recommend deleting this part from the next progress report.

Special Finance Scheme for small and medium enterprises (Paragraphs 27 and 28 of Part V of PAC Report No. 43)

57. 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 1 397 claims involving a total of \$326 million have been settled. Another 22 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 44 cases involving a total of \$12 million.

Small house grants in the New Territories (Paragraphs 29 and 30 of Part V of PAC Report No. 43)

Implementation of small house policy

58. In taking forward the small house policy review, the Housing, Planning and Lands Bureau (HPLB) has set up an inter-departmental Steering Committee to look into the various issues relating to the small house policy, including the social, economic and environmental development in the New Territories and the whole of Hong Kong since the introduction of the Policy in 1972. Given the wide-ranging and complex issues involved, the Steering Committee has yet to formulate detailed proposals for consultation with the Heung Yee Kuk (HYK) and the community.

Checking of indigenous villager (IV) status

59. The practice of statutory declarations to be made respectively by the small house applicant himself and the Indigenous Inhabitant Representative of the recognized village concerned is acceptable for the purpose of verification of the IV status of the applicant and hence his eligibility for a concessionary grant under the small house policy. This has been agreed by HYK and put into practice.

Processing of small house grant applications

60. Lands D has drawn up a set of new procedures to streamline the processing of small house applications through early classification of applications into straightforward and non-straightforward categories. The Administration is discussing the details of implementation with HYK, including the procedures to be adopted for resolving objections to applications.

Public markets managed by the Food and Environmental Hygiene Department (Paragraphs 37 and 38 of Part V of PAC Report No. 43)

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

61. To improve the competitiveness of public markets, FEHD continues to carry out general improvement works and conduct promotional activities in selected public markets. The Department is carrying out general improvements works (including upgrading of drainage, lighting, ventilation and signage) at an estimated capital cost of about \$156 million to improve the shopping environment and atmosphere in eight markets. The Department is also planning similar works in another 11 markets. The Department will make continued efforts to improve the attractiveness of the markets through –

- maintaining a high standard of cleanliness in the markets;
- allowing flexibility in determining and changing, for individual stall, the stall business, and where feasible, the stall size;
- merging of selected vacant small stalls to become larger stalls to attract potential bidders;
- lowering, in selected markets, the upset auction prices of long-standing vacant stalls to attract potential bidders;
- using a proactive approach in attracting new lines of business into selected markets;

- conducting promotional activities (such as talks, competitions and exhibitions), particularly during special festive seasons, and distributing regular market newsletters to attract customers; and
- organising workshops for stallholders to help improve their customer services.

62. FEHD completed a survey on changes in customers' food purchasing habits in November 2005. FEHD plans to conduct another survey this year to track the changes in public patronage of wet markets vis-à-vis other retail outlets including supermarkets, and the reasons behind. FEHD will take the results of the surveys into account in deciding whether it is feasible to set a target MSVR for individual markets. In any case, FEHD will continue to explore ways and means to reduce the MSVRs of public markets.

Review of the demand for public market facilities

63. The Health, Welfare and Food Bureau (HWFB) and FEHD are undertaking a review of the wet market policy and will consult the LegCo and relevant stakeholders on any major findings and recommendations prior to implementation.

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

64. HWFB and FEHD will identify markets that may merit closure in the wet market policy review and will consult the relevant stakeholders including the affected stall tenants and DCs before drawing up the rationalisation plans.

65. In response to a request from the Food and Environmental Hygiene Committee of the Yau Tsim Mong DC and some stallholders, FEHD consulted the stallholders of the Mong Kok Market on the proposal to close down the Market due to viability problems. However, the majority of the stallholders did not support the proposal. FEHD is now consulting other departments to see whether they have any plans for the market premises/site before considering the way forward.

Buildings Department's efforts to tackle the unauthorised building works problem (Paragraphs 41 and 42 of Part V of PAC Report No. 43)

The Coordinated Maintenance of Buildings Scheme (CMBS)

66. Under the new modality of CMBS, 150 target buildings were selected in 2005 for improvement of building safety and outlook. The Hong Kong Housing Society (HKHS) plays the role of providing technical support and incentives to owners whilst the Buildings Department (BD) mainly focuses on enforcing statutory repair and removal orders issued to uncooperative owners.

67. There has been further progress since BD reported to PAC in January 2006 the findings of its interim review on the effectiveness of the new modality of the scheme. As at end of February 2006, BD issued advisory letters to owners of the 150 target buildings informing them of the scope and nature of the improvement works required for their buildings. Of these 150 buildings, 35 have formed Owners Corporations (OCs) and 28 have appointed Authorised Persons (including two of the 35 buildings with newly formed OCs) to commence the improvement works. BD intends to issue repair and removal orders by May 2006 to all those owners who did not take action according to the advisory letters. HKHS will step up its effort in providing technical support and incentives to the owners for compliance with the orders.

68. BD will continue to adopt the new modality in the CMBS 2006, which will commence in April 2006 and be extended to cover another 153 target buildings.

Control of signboards

69. 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, cost-effective and simple means for carrying out minor works, including erection of signboards. BD is working out the details of the proposal in consultation with the industry. BD plans to introduce the Buildings (Amendment) Bill in late 2006 to take forward the proposed regime. In this connection, BD is also preparing the relevant legislative amendments. The Director of Buildings will carry out a post-implementation review of the regime to ascertain its effectiveness.

Planning and provision of public secondary school places (Paragraphs 43 and 44 of Part V of PAC Report No. 43)

Schools places provided by Direct Subsidy Scheme (DSS) schools

70. At present, the DSS school places account for about 5.8% of the total provision of places in public sector schools. The Education and Manpower Bureau (EMB) will monitor the development of DSS schools from time to time, including their enrolment situation and future development planning.

The acquisition and clearance of shipyard sites (Paragraphs 45 and 46 of Part V of PAC Report No. 43)

Resumption and Clearance of the North Tsing Yi Shipyard Site

71. The Administration is considering how best to implement the recommendations. Given the fact that some tenants of short-term tenancies may have genuine financial difficulties in arranging for the demolition of their structures, there

may be a need to exempt certain clearees from 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 Director of Lands (D of L) will amend the Lands Administration Office Instructions as recommended by the Director of Audit.

Assessment of Contamination at the Penny's Bay Shipyard Site

72. The ex-lessee of the Penny's Bay shipyard site made an application to the Lands Tribunal for a hearing to determine certain points of law, including the issue of whether the costs of decontamination of the site be taken into account in determining the ex-lessee's claim for compensation under the Foreshore and Sea-bed (Reclamations) Ordinance (Cap 127). Following the hearing on 16 January 2006, the President of the Lands Tribunal handed down his decision on 8 February 2006 that there should be a hearing to determine certain points of law as preliminary issues. Such hearing has been scheduled for 22 to 25 January 2007.

Funding of tertiary education (Paragraphs 47 and 48 of Part V of PAC Report No. 43)

UGC's endeavours in benchmarking the cost of tertiary education

73. The UGC has commissioned a consultancy study to review the costing practice of the UGC-funded institutions, and to develop a proposal for activity-based costing methodology for the UGC sector. The consultant is expected to submit its proposal to the UGC for consideration within 2006.

Funding of self-financing activities

74. According to the UGC-funded institutions, all directly identifiable costs of the operation of student hostels have been fully met by hostel fees. The amount of overhead charges involved in student hostel operation is difficult to ascertain given that a wide range of offices in the institutions are involved in student hostel activities. The UGC will continue to examine how overhead charges involved in student hostel operation should be dealt with in consultation with the institutions having regard to these findings.

Refund of rates and government rents

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

Control and monitoring of District Council expenses and related activities
(Chapter 1 of Part VIII of PAC Report No. 43)

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

76. The Administration has decided to withdraw the administrative measure of allowing, without query, tax deduction of 50% of the honorarium of DC members with effect from the 2006-07 tax year. The Home Affairs Department (HAD) informed all DC members of the decision in its letter of 22 March 2005. The Inland Revenue Department (IRD) also issued a letter dated 31 March 2006 to all DC members on the removal of the administrative measure and explained to them how to lodge their tax deduction claims.

77. HAD consulted the Independent Commission on Remuneration for Members of the District Councils of HKSAR (the Independent Commission) in March 2006 on the revised lists of reimbursable/non-reimbursable items of the Operating Expenses Allowance (OEA) and the Information Technology and Other Support Grant (ITOSG) for DC members. On endorsement of the proposals by the Independent Commission, HAD has informed all DC members of the revised lists which would help provide a clear reference for DC members and IRD for tax deduction purposes.

78. HAD conducted a briefing session jointly with IRD on 19 April 2006 for DC members on how to lodge tax deduction claims upon withdrawal of the administrative measure.

79. As all follow-up action has been completed, we recommend deleting this part from the next progress report.

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

80. HAD consulted the Independent Commission in March 2006 on the recommendation of converting 50% of a DC member's honorarium to OEA. The Independent Commission agreed with the Administration's view that adopting the recommendation would undermine the current flexibility enjoyed by DC members in making use of the honorarium to conduct DC business. Taking account of the advice from the Independent Commission, HAD will maintain the current arrangement concerning honorarium and OEA for DC members.

81. As the relevant review has been completed, 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

82. HAD has conducted a review of the guidelines on the reimbursement of the OEA and ITOSG. Apart from revising the lists of reimbursable items and the reimbursement criteria for some items under OEA and ITOSG as recommended by the Independent Commission, HAD has promulgated clear guidelines on the use of DC members' ward offices for discharging DC duties having regard to the views of DC members, the Independent Commission Against Corruption (ICAC) and other relevant bureaux/departments. HAD has also taken on board ICAC's advice tendered in its review of the principles, procedures and guidelines governing the OEA and ITOSG and issued a code of conduct for the staff of DC members. Particular emphasis is placed on assisting the staff of DC members in avoiding potential conflict of interest, adhering to the principles of fairness, transparency and accountability, and upholding the high standard of conduct expected of them in carrying out their duties.

83. HAD organised, in conjunction with ICAC, a briefing session for DC members on 19 April 2006 and provided further details of the code of conduct for the staff of DC members.

84. HAD will continue to work with ICAC and other relevant parties to make further improvements to the guidelines governing the OEA and ITOSG as necessary.

85. As this is an on-going task, we recommend deleting this part from the next progress report.

Government subsidies to the English Schools Foundation (Chapter 2 of Part VIII of PAC Report No. 43)

86. As previously reported, we will start substantive discussions with the English Schools Foundation (ESF) on a review of the subvention arrangements later, after the ESF has implemented its governance reform and put in place a sound governance structure (paragraph [87] below). At this stage, the Government has not come up with any specific proposals.

Corporate governance and Headquarters administration of the English Schools Foundation (Chapter 3 of Part VIII of PAC Report No. 43)

Corporate Governance

87. The ESF has continued to work with its legal draftsmen to prepare a private member's bill for introduction into the LegCo. The purpose of the bill is to make necessary amendments to the ESF Ordinance so as to give effect to its new governance framework. The ESF also plans to make a new set of regulations under the ESF Ordinance which will be laid before the LegCo for scrutiny. It is the intention of

the ESF that the legislative proposals will address the key issues of concern raised by PAC^{Note}. Of note is the new governance structure to be proposed under the legislative amendments which will include the following features –

- (a) A Board of Governors will be established in which parents, School Council Chairmen, LegCo Members and representatives of the wider community will form a substantial majority.
- (b) There will be provisions to encourage members to attend Board meetings regularly. A code of conduct will also be drawn up requiring members to declare any interest.
- (c) Standing Committees will be established to audit the Foundation's management processes, to make recommendations on remuneration and terms and conditions of service for staff and to advise on a financial strategy. There will be no employees on the Audit Committee nor the Remuneration Committee.

The ESF is finalising the draft bill with a view to obtaining its Foundation's in-principle approval before introduction into the LegCo (tentatively within the current legislative session).

88. Since the last progress report, the ESF has completed a review of the role of its Foundation Office on the basis of findings submitted by the independent management consultant. The review findings have been published and the changes are being implemented by phases starting from the early autumn of 2005. The ESF has also completed its review of remuneration for the teaching staff. The new remuneration package has been implemented for new teachers and the serving ones whose contracts are due for renewal in 2006. Further changes will be made next year for those whose contracts are due for renewal in 2007.

89. We note that the ESF will devise long-term disposal plans for its surplus staff quarters in 2007. Meanwhile, it has advised that the vacancy rate for staff quarters has been reduced from 6.25% in April 2004 to 3% in March 2006. The rental charges for eligible staff for occupying staff quarters will be increased progressively from now to 2010. Separately, actions on the review of the remuneration packages of its senior staff are pending.

Note

These include –

- (i) containing the size of the ESF Foundation;
- (ii) separating management functions from the governance body;
- (iii) increasing the proportion of independent members on the ESF Foundation
- (iv) improving attendance at ESF Foundation meetings;
- (v) reviewing staff voting right on pay and benefits in meetings of the ESF Foundation; and
- (vi) establishing an internal audit committee.

Action Plan

- Encl. 1 90. The ESF has updated its action plan as at May 2006 at Enclosure 1. For items with “Fully Completed” marked in the Remarks column, the relevant follow-up actions have been completed and we recommend deleting these items from the next progress report. For most of the remaining recommendations of PAC, full implementation is subject to the legislative amendment to be introduced into the LegCo.

School administration of the English Schools Foundation (Chapter 4 of Part VIII of PAC Report No. 43)

- Encl. 2 91. The latest ESF’s action plan as at May 2006 in respect of outstanding matters is at Enclosure 2. We also recommend deleting from the next progress report those items with “Fully Completed” marked in the Remarks column.

Grant of land at Discovery Bay and Yi Long Wan (Chapter 5 of Part VIII of PAC Report No. 43)

Site boundaries of Discovery Bay and Yi Long Wan development

92. D of L is working out the implementation details of practical measures to, during the construction period of a development, deter encroachment on Government land, and to monitor and identify for rectification such encroachments.

93. D of L has obtained legal advice on the possible alternative options to resolve the land encroachment problems of the Yi Long Wan development and will determine the way forward in due course.

94. The withholding of the Certification of Compliance (C of C) is a useful and effective control measure to deter and deal with land encroachment which has occurred prior to completion of a development. Consideration of revised procedures for withholding the C of C is on-going.

REPORT ON THE RESULTS OF VALUE FOR MONEY AUDITS (Report No. 45)

Chapter 1 – Development of a site at Sai Wan Ho

95. The Government and PAC share a common objective to enhance the transparency of the development approval process, whilst at the same time striking a balance by not creating unnecessary hurdles for the industry in conducting its business. The Government has accepted all the recommendations made by the Director of Audit as endorsed by PAC and has already taken positive steps to implement them.

96. Through the concerted efforts of the Planning Department (Plan D), Lands D, BD, Arch SD and HPLB, we have put in place a series of improvement measures to address the recommendations of PAC and the Director of Audit.

Importance of implementing planned development intensity

97. In order to meet the community's aspiration for a quality living environment, we have, in conjunction with the Town Planning Board, proactively and progressively taken measures to control building heights and density of developments through stipulations in the statutory town plans. To ensure that proper regard is paid to the provision of public facilities, Plan D will, before the sale of a site, provide to the relevant Government departments an updated assessment on the need for such provision in the concerned district.

Transparency in the land sale process

98. With a view to enhancing the transparency of the procedures for sale of government land, Lands D has revised the relevant internal instructions defining which types of information to be given to an enquirer pertaining to the development parameters, such as gross floor area (GFA), car parking requirement and provision of government/institution/community (GIC) facilities, are to be publicized on the Government website and in newspapers.

99. BD has put in place a mechanism whereby advice to be provided to Lands D on site classification before a land sale would be determined by the Building Authority Conference only.

100. In respect of GIC facilities, the Arch SD has reviewed the procedures for the preparation of technical schedules for incorporation into the lease conditions. The audit recommendations, including that GIC design requirements should, where appropriate, be properly drawn to scale in the layout drawings for incorporation into the lease conditions of the site, have been adopted and will be implemented for future GIC facilities.

Site classification

101. Concerning site classification for development projects, BD has already amended the Building (Planning) Regulations to clarify the definition of 'street' for site classification purposes under the law. In addition, BD will consult relevant departments on factors affecting site classification prior to the sale of a site and seek legal advice where necessary to clarify any legal doubts.

Granting of exempted and bonus GFA

102. To remove any ambiguities concerning whether a public transport terminus (PTT) would be GFA accountable, BD has amended the relevant Practice Note. The Practice Note now states clearly that all PTTs will count for GFA, unless the relevant outline zoning plan or a specific planning approval allows the PTT to be exempted from GFA calculation. Legal advice will be sought where necessary in case of any legal doubts.

103. In the granting of bonus GFA, the BD will consult and seek consensus from relevant departments, in particular Lands D and Plan D, to ensure that such GFA concessions are supported by the departments concerned.

104. In keeping with its well-established practices in dealing with cases where the lease conditions contain a maximum GFA clause, Lands D will stipulate in the lease conditions whether any government accommodation required would be GFA-accountable, so that prospective tenderers can take this information into account when bidding for a site.

Improving inter-departmental communication

105. PAC has requested to be kept informed of actions taken by the Secretary for Housing, Planning and Lands (SHPL) to improve communication and coordination among Plan D, Lands D and BD with a view to ensuring that planning intentions are achieved when a site is developed. The role of the HPLB (the Bureau) is to set the general policies relating to planning, land and building matters, whilst the three departments perform their functions in accordance with prevailing policies and the relevant legislation in the development of a site. The three departments maintain close communication in the process. There are established forums to discuss and resolve inter-departmental issues at various stages of the development process, including the District Lands Conference, District Planning Conference, Building Committee and Building Authority Conference. In case there are issues with policy implications, the departments will consult the Bureau for guidance.

106. Moreover, the Bureau has set up dedicated forums, such as task forces and working groups, to enhance coordination among the departments, whether in the handling of ad hoc issues or individual projects, or in dealing with more systemic issues, for instance in streamlining the approval procedures during the development process. The Government will continue to strive towards further improvement in this area. For example, efforts are being made in the alignment of development control parameters between the three departments where appropriate, and in simplifying lease conditions.

Criteria for GFA restrictions in future leases

107. PAC recommended reviewing the criteria for deciding whether the maximum GFA of a site should be specified. To this end, we have started reviewing whether or not it is appropriate to impose a maximum GFA clause in the leases of future sale sites of Government land. Apart from the merits and demerits of this proposal, which SHPL highlighted in the PAC hearings, there are certain trade-offs between the provision of certainty and the maximisation of land premium. It would be necessary for us to strike a delicate balance. The Government will carefully consider the recommendation of PAC in reviewing the criteria for deciding under what circumstances the maximum GFA of a particular site should be specified, and conduct consultations with the stakeholders concerned before determining the way forward.

Practice Notes governing Building Authority (BA)'s exercise of discretion

108. In order to enhance accountability and transparency in his exercise of discretion in the processing of various applications under the Buildings Ordinance, the BA has in the past issued various Practice Notes to set out for the information of the industry the criteria that BA will adopt in the exercise of such discretion. BA and officers authorised by him to exercise such discretion have to act in good faith, follow the law and the criteria promulgated in the Practice Notes and take into account all factors relevant to the issue under consideration in the exercise of discretion. While the relevant factors may vary in each case, BD has put in place internal guidelines to set out for general guidance the factors which should be considered.

109. Having regard to the complexity of the individual cases, the applications will be considered and endorsed by a committee chaired by an Assistant Director of BD, or by a committee chaired by the BA, as appropriate. To further enhance transparency, BD will publish a summary of the matters considered at the Building Committee, and the decisions made, on its web site.

Way forward

110. The Government will continue to monitor the implementation of the various improvement measures.

Chapter 3 – Recovery of legal costs by the Legal Aid Department

111. LAD attaches great importance to maintaining cost-effectiveness in its provision of legal aid services. LAD will take all necessary steps to recover costs when it is appropriate to do so and will closely monitor the recovery process.

Costs recovery of the legal aid schemes

112. LAD will make available to the public the following information in its 2006 Annual Report –

- (a) statistics on the amount of damages and costs recovered as a percentage of total amount due to the Department and aided persons; and
- (b) the amount of legal costs paid by LAD to the opposite parties in legally aided proceedings.

LAD will also upload such information onto its website upon publication of the report.

113. LAD has set up a Working Group (WG) to identify additional performance indicators for evaluating the efficiency and effectiveness of LAD's provision of legal aid services. The WG has identified areas to develop new performance indicators in the light of overseas experience.

114. In March 2006, LAD put in place checklists for documenting the reasons for not seeking costs against the opposite parties.

Enforcement proceedings against judgment debtors

115. LAD has prepared a draft checklist of enforcement actions to help its staff document the actions taken, together with the results, and the reasons for not pursuing certain courses of action. The checklist will be put to use in the second quarter of 2006, when the Case System is upgraded. It supplements the existing ones, which document the reasons for unsuccessful enforcement proceedings and the reasons in support of a recommendation to write-off outstanding legal costs.

Administration of outstanding and irrecoverable legal costs

116. LAD has, in collaboration with the Director of Accounting Services (DAS), designed specific forms for use to report on outstanding legal costs awarded to aided persons. The new reporting system will be used as from the 2006 annual return to DAS.

The Audit Commission's access to legal aid case files

117. LAD's Internal Audit Team has completed examining the case files selected by the Audit Commission of which consent of the aided persons had not been given. LAD will take necessary follow-up actions if any issues are revealed in the findings of the examination. We recommend deleting this part from the next report.

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end May 2006)	Remarks
1.	<p>Corporate governance</p> <p>a. Conduct a review on the role of the Foundation Office including the need for its continued existence;</p> <p>b. Adopt measures to ensure that external members will constitute a majority at each of the respective meetings of the Foundation and the ExCom;</p> <p>c. Issue reminders to the related organisations if the attendance rates of their representatives at Foundation meetings are low;</p>	<p>ESF agrees. Chief Executive Officer will review the management of the Foundation Office.</p> <p>This is agreed and formed the basis of the work of the Governance Task Force.</p> <p>Agreed: reminder will be issued before Foundation meetings.</p>	<p>Review: April-June 2005 for the Executive Committee (ExCom) to consider in June 2005, and implementation in September 2005.</p> <p>Agreed in principle by Foundation Meeting on 9 December 2004.</p> <p>By June 2005.</p>	ExCom	<p>Review: Completed in July 2005 with the report published in September 2005 and review recommendations being implemented.</p> <p>Review of Governance : Majority of external members will be required at Board Meetings and the ExCom will be abolished under the draft bill to amend the ESF Ordinance.</p> <p>Review of Governance : Members who do not attend will be deemed to have resigned under the new Regulation to be made.</p>	<p>Fully completed. To delete this item from the next progress report.</p>

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end May 2006)	Remarks
	<p>d. Amend the Regulations of the ESF to the effect that ESF staff members of ExCom would abstain from voting on matters concerning ESF staff benefits at its meetings;</p> <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 LegCo;</p>	<p>To be considered by Governance Task Force.</p> <p>To be considered by Governance Task Force.</p>	<p>Governance Reform Task Force to consider (b), (d) and (e) by April 2005 and to publish a consultation paper by May 2005. Foundation to consider the reform in June 2005.</p>	<p>ExCom</p>	<p>Review of Governance : Board members will be required to declare any interest and not to vote on a matter in which they are direct beneficiary under a Code of Conduct to be drawn up under the new Regulation.</p> <p>New Remuneration and Terms and Conditions Committee will not have staff members.</p> <p>Section 10(2) of the ESF Ordinance will be repealed. Future Regulations will have to be presented to LegCo.</p>	

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end May 2006)	Remarks
	<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. Require 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>The ExCom 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 ExCom 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 auditor, and had substantive discussions with management on 17 December 2004 and 7 January 2005.</p>	<p>ExCom</p>	<p>Proposed Audit Plan (internal and external) was placed before Audit Committee in September 2005.</p>	<p>Fully completed. To delete this item from the next progress report.</p> <p>Fully completed. To delete this item from the next progress report.</p>

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end May 2006)	Remarks
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 ExCom of the Foundation will continue to carefully:</p> <p>(i) monitor ESF budgets and current liabilities;</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>ExCom reviewed this recommendation when it reviewed the First Stage Estimates 2005-06 at the meeting of 22 March 2005.</p>	<p>ExCom</p>	<p>Done. Each budget paper covers this.</p> <p>Ongoing.</p>	<p>Fully completed. To delete this item from the next progress report.</p>

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end May 2006)	Remarks
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;</p>	<p>The 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 teaching staff.</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>(a) Actioned (regarding the establishment of RSG)</p> <p>RSG to report in July 2005.</p>	<p>RSG/ExCom</p> <p>ExCom</p>	<p>Remuneration review for teaching staff was completed and implemented in November 2005.</p> <p>Membership of the Remuneration Committee will be made independent of the teaching and non-teaching staff, as would be specified in the new Regulation.</p>	

Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end May 2006)	Remarks
<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>The ESF agrees with the audit recommendations in paragraph 4.32. The ESF 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 ExCom 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><u>Actioned</u> – 17 December 2004.</p>	<p>ExCom</p>	<p>Done in December 2004.</p> <p>Done in December 2004.</p> <p>Done in December 2004.</p>	<p>Fully completed. To delete this item from the next progress report.</p> <p>Fully completed. To delete this item from the next progress report.</p> <p>Fully completed. To delete this item from the next progress report.</p>

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end May 2006)	Remarks
	d. ensure that the approval of the ExCom is obtained before making extra payments to its senior staff upon their leaving the ESF.				Done in December 2004.	Fully completed. To delete this item from the next progress report.

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end May 2006)	Remarks
4.	<p>Staff housing and medical benefits</p> <p>a. Consider offering housing allowance to its staff instead of providing staff quarters;</p> <p>b. Strictly adhere to the maximum monthly rent entitlement of its staff; and</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. The ESF has stated that: 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: the ExCom 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>Audit recommendations in paragraph 5.14 (a) to (c) Actioned (for new staff).</p> <p>To submit a paper in respect of audit recommendations in paragraph 5.31(a) and (b) to ExCom by June 2005.</p>	<p>ExCom</p> <p>ExCom</p>	<p>Actioned for new staff. Benefits for existing staff have been addressed in the remuneration review.</p> <p>The review will be conducted in 2007.</p>	<p>Fully completed To delete this item from the next progress report.</p> <p>Fully completed. To delete this item from the next progress report.</p>

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end May 2006)	Remarks
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 ExCom 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>		Human Resources Director (HRD)	The policy was agreed by the ExCom and published in December 2005.	Fully completed. To delete this item from the next progress report.

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end May 2006)	Remarks
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 Education Director (EDD) to establish a group to provide guidance by 30 June 2005.</p>	<p>EDD</p>	<p>Written guidance on development planning was issued to the Academic Committee on 17 June 2005.</p>	<p>Fully completed. To delete this item from the next progress report.</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>	<p>It is planned that incentive allowances would be abolished and modern management structures would be introduced in September 2007.</p>	