

THE GOVERNMENT MINUTE

in response to the

**REPORT NO. 47 OF
THE PUBLIC ACCOUNTS COMMITTEE**

dated February 2007

16 May 2007

**THE GOVERNMENT MINUTE IN RESPONSE TO THE
PUBLIC ACCOUNTS COMMITTEE (PAC) REPORT NO. 47
DATED FEBRUARY 2007**

**REPORT ON THE RESULTS OF VALUE FOR
MONEY AUDITS (Report No. 44)
MATTERS OUTSTANDING**

Chapter 1 – Diesel vehicle emission controls

Diesel vehicle inspection and maintenance programme

The Environmental Protection Department (EPD) and the Transport Department (TD) are still liaising with the transport trades on the standard adopted for checking the maximum engine output in smoke tests. The trades have indicated earlier that they considered the current standard appropriate and had difficulties meeting any further tightened standard in view of the condition of their vehicles. The current standard is maintained for the time being, pending identification of practicable solutions with the trades.

2. The proposed amendment to the Road Traffic (Construction and Maintenance of Vehicles) Regulations (Cap. 374 sub. leg. A) to tighten the smoke opacity standard adopted by TD to that currently adopted by EPD, viz. 50 Hartridge Smoke Units, will be tabled at the Legislative Council (LegCo) for negative vetting in mid-2007. Allowing a six-month grace period for the transport trades to adapt to the tightened requirement, the new standard is expected to take effect in around early 2008.

Smoky vehicle control programme

3. In view of the objection by the vast majority of the trades to the proposal to further shorten the prescribed period for vehicle owners served with an emission testing notice to bring their vehicles for a dynamometer smoke test from 14 working days to 12 working days, EPD will commence another round of consultation with the trades in the second quarter of 2007 for completion within the year.

Use of liquefied petroleum gas (LPG)

4. With the opening of the petrol-cum-LPG filling station in Tai Po Kau in October 2006, the total number of stations providing LPG refilling services has been increased to 56. Another petrol-cum-LPG filling station will be opened in Tung Chung by end 2007. LPG refilling network will be further expanded as all new petrol filling stations will be required to provide LPG filling facilities if the safety requirements can be met. EPD will continue to monitor the expansion of LPG refilling network and consider extending the use of LPG to other vehicle classes once the infrastructure is ready. As this has become part of the ongoing task of EPD, we recommend deleting this part from the next progress report.

Chapter 2 – The Postal Mechanisation System at the Air Mail Centre

Improving the performance and utilization of the Postal Mechanisation System (POMS)

5. With the assistance of the Electrical and Mechanical Services Department, the Post Office (PO) has been able to maintain the performance of POMS at the Air Mail Centre at about the same level as in the last report while achieving rather a major improvement in utilization (details at Enclosure 1). POMS has been in use for more than eight years, which is over half of its designed operating life of 15 years, and is reaching the limit for further improvement in its performance. Further investment to achieve minor marginal improvement in performance is not considered justified. As maintaining the current performance level involves following established operational procedures and routine maintenance only, we recommend deleting this item from the next progress report.

Encl. 1

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

Hong Kong Harbour Fest (Paragraphs 5 to 7 of Part 3 of P.A.C. Report No. 45)

The case for considering disciplinary action against any civil servant

6. Regarding the disciplinary proceedings surrounding the Harbour Fest case, the Administration has disposed of the appeal of the civil servant concerned against the guilty verdict and the disciplinary punishment imposed. The civil servant was informed of the outcome of his appeal on 26 January 2007.

7. Thereafter, the Secretary for the Civil Service gave an account of the disciplinary proceedings and outcome of the disciplinary case to LegCo Panel on Public Service on 8 February 2007, following the issue of a written account vide LC Paper No. CB(1)882/06-07(02).

Provision of aquatic recreational and sports facilities (Paragraphs 8 to 9 of Part 3 of P.A.C. Report No. 45)

Improving water quality of the gazetted beaches in Tsuen Wan District

8. In March 2007, the Administration submitted to LegCo legislative proposals for adjusting the sewage charge in a gradual and modest manner over the coming ten years. Subject to passage of the legislation, the Administration plans to advance the disinfection facilities of the Harbour Area Treatment Scheme (HATS) Stage 2A at the Stonecutters Island Sewage Treatment Works (SCISTW) for completion in 2009 to improve the water quality of the gazetted beaches in Tsuen Wan. The Administration will also seek the funding approval of LegCo for taking forward the other HATS Stage 2A-related project, viz. the planning and design of the upgrading works of SCISTW and associated facilities, before the summer recess.

9. Drainage Services Department is carrying out the Environmental Impact Assessment (EIA) study for advancing the disinfection facilities. The EIA study and the statutory EIA process under EIA Ordinance are expected to be completed in April 2007 and October 2007 respectively. We expect that the water quality of the gazetted beaches in Tsuen Wan District will be improved once the advanced disinfection facilities are in operation.

De-gazetting of the Rocky Bay Beach

10. The de-gazetting of the beach is held up, since some residents in Shek O have raised concerns about the return of the beach from the Leisure and Cultural Services Department (LCSD) to the Lands Department (Lands D). LCSD is now trying to resolve the problem and plans to de-gazette the beach by October 2007.

De-gazetting of the Kiu Tsui Beach on Sharp Island

11. A private developer has recently submitted an application to Lands D proposing to develop part of the Sharp Island for recreational use. Upon receipt of more detailed information from the private developer, Lands D will consult the relevant government departments including LCSD on the proposals. LCSD will consult the Sai Kung District Council (DC) as appropriate on the future use of the Kiu Tsui Beach and the feasibility of designating the adjacent sandy beach as a gazetted beach.

Alignment of fees and charges of all swimming pool complexes

12. LCSD is reviewing, in conjunction with the Home Affairs Bureau and the Treasury Branch of the Financial Services and the Treasury Bureau (FSTB), the fee structure and the target costs of recovery as well as evaluating the financial implications arising from various options of fee alignment for the use of public swimming pools together with other recreational and sports facilities in one go.

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

13. Having consulted the respective DCs, LCSD now closes the Pao Yue Kong Swimming Pool and the Jordan Valley Swimming Pool in November each year, and opens the Kennedy Town Swimming Pool, the Victoria Park Swimming Pool and the Kowloon Tsai Swimming Pool in the morning sessions only during such period. As action has been completed, we recommend deleting this item from the next progress report.

Swimming training courses

14. LCSD has increased the size of swimming classes by one-third for the Progressive Swimming Scheme since 2005. The new arrangement is found to be more cost effective because it generates more revenue and the total number of participants as well as the passing rates for each stage have increased. Moreover, the programme fees collected for the scheme have fully covered the instructor cost. As regards the review of the fee level of swimming courses, LCSD is conducting it as part of the overall review exercise on the fees and charges for recreation and sports programmes.

University Grants Committee funded institutions - Governance, strategic planning and financial and performance reporting (Paragraphs 3 to 4 of Part 4 of P.A.C. Report No. 45)

Corporate governance of institutions

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

15. The Court of the University of Hong Kong (HKU) resolved in December 2005 that the University of Hong Kong Ordinance should be amended so that the descriptions of the respective roles of the Council and the Court therein would be consistent with their powers as set out in the relevant statutes. HKU is preparing the relevant legislative amendments in accordance with the decision of the Court and plans to submit their proposal to the Administration for consideration in mid-2007.

University Grants Committee funded institutions - General administrative services (Paragraphs 5 to 6 of Part 4 of P.A.C. Report No. 45)

Provision of senior staff quarters

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

16. The Administration and the Secretary-General, UGC are examining the joint proposal put forward by UGC-funded institutions regarding the funding arrangement for staff housing benefits after deregulation of salaries. Subject to the outcome of their deliberations, 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

17. The advisory committee that advises the Administration on the operation of the Local Student Finance Scheme has previously recommended, among 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 to 8 of Part 4 of P.A.C. Report No. 45)

Pay structure

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

18. PolyU submitted a preliminary proposal to the Administration in October 2006 to amend, among other provisions, section 9(3)(c) of The Hong Kong Polytechnic University Ordinance to define more clearly PolyU Council's role in drawing up the University's policy governing the terms and conditions of service of staff. PolyU is considering the Administration's feedback and plans to submit a revised proposal to the Administration before the end of 2007.

Financial performance of the Post Office (Paragraphs 9 to 10 of Part 4 of P.A.C. Report No. 45)

The results of the comprehensive review of postal policy and services

19. In its Report No.38 (released in 2002), PAC identified a number of concerns and challenges facing PO and urged that PO, in conjunction with the Economic Development and Labour Bureau, critically examine those challenges and find practical ways of meeting them.

20. The Administration advised that we would review our postal policy and services and take into account the seven specific concerns and challenges identified by PAC in the process. We are pleased to report that with improvement measures introduced in the past few years, including those under the Hongkong Post Strategy Map introduced in 2004 as the blueprint of PO's business operations, the concerns and challenges raised by PAC have been largely addressed. An overview of our efforts and the results are as follows –

(a) *Regarding the concern that many post offices occupy government premises at prime locations*

During the period from 2003-04 to 2006-07, PO returned the surplus space in five branch offices located within the premises of the Housing Authority and reprovisioned another five branch offices. The annual savings from these initiatives were about \$7 million for 2006-07. PO will continue to identify opportunities for further reducing its rental expenditure. Moreover, PO will continue to reprovision premises at prime locations should suitable replacements be available.

- (b) *Regarding challenges posed by new communication technology*
- (c) *Regarding challenges posed by successful private operators*
- (d) *Regarding the creaming off of PO's business in certain areas*
- (e) *Regarding the concerns of some mailers and postal administrations exploiting local postage rates and bypassing the international mail system*

The above developments are largely outside the control of PO. Some of them are in fact positive developments that benefit the economy as a whole. To face up to these challenges, PO has enhanced its general competitiveness in the aspects of service quality, cost and thus price, as well as pursued new revenue streams. Some examples of related efforts are set out below –

Service quality

- improved track and trace system for selected mail services such as Speedpost and LocalCourierPost service
- revised or extended office opening hours for selected post offices to better cater for customer needs

Cost and price

- reduced mail delivery frequencies to commercial and industrialized areas from twice to once a day without jeopardizing the service quality
- enhanced productivity by 12% since 2002-03 through process re-engineering and automation
- a number of other efficiency improvement programmes in the pipeline
- local postage maintained at 2002 level

New revenue streams

- introduction of new services such as remittance service and ShopThruPost
- expanded clientele for PayThruPost

The above measures have enabled PO to regain its financial health (see below) despite increasing competition.

- (f) *Regarding the concern that there is cross-subsidization among different types of mail services*

This concern arose mainly from the cross-subsidization for the bulk bag service. We increased the postage rates of surface bulk bag service to all destinations and bulk posting of lightweight items to Japan and Thailand in 2006 to recover the service costs. After the revision, all cross-subsidization has been removed, except for local mail. We believe we should be more cautious in raising charges of local mail given that their users include the general public. Nonetheless, we have achieved significant reduction in the level of subsidization for local mail through a range of productivity enhancement measures.

- (g) *Regarding the concern that PO has sustained continued operating loss since 1998-99*

PO started achieving operating profits from 2003-04 onwards, successfully reversing a five-year deficit trend. PO's operating profits were \$17m, \$226m and \$405m for 2003-04, 2004-05 and 2005-06 respectively. PO expects to achieve comparable financial results as those of 2005-06 for 2006-07. Barring unforeseen circumstances, PO is confident that its financial performance will remain robust in the foreseeable future.

21. As our reviews and new measures have shown results, we recommend deleting this item from the next progress report. We shall nonetheless continue to seek further improvements in the light of the evolving operational environment.

Provision of slaughtering facilities for supplying fresh meat (Paragraphs 11 to 12 of Part 4 of P.A.C. Report No. 45)

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

22. The consultancy study to examine the feasibility of modifying SSSH to cater for the increase in the slaughtering throughput of pigs was completed in December 2006. In gist, the consultant found that the existing pig lairages and related facilities in SSSH would be inadequate to cope with the additional throughput and the construction of the additional facilities within the existing SSSH site boundary is considered not feasible after detailed review. The consultant recommended options including the one for the construction a new 2-storey workshop cum pig lairage block outside the present SSSH boundary and has provided a more detailed report with elaboration on the proposals together with supporting calculations and figures in April 2007.

23. The Food and Environmental Hygiene Department (FEHD) is considering the findings and proposals of the final report and other related factors before making recommendations on the feasibility of centralising slaughtering operation of livestock at SSSH and the way forward.

Services provided by the Official Receiver's Office (Paragraphs 13 to 14 of Part 4 of P.A.C. Report No. 45)

24. The Bankruptcy (Amendment) Ordinance 2005 is expected to come into operation once the corresponding subsidiary legislation has been passed and the administrative logistics completed by late 2007. The legislative changes will facilitate the outsourcing of debtor-petition summary bankruptcy cases (i.e. each with estimated realisable assets of not more than \$200,000) to private sector insolvency practitioners (PIPs) by the Official Receiver's Office (ORO). ORO plans to launch a pilot scheme to outsource the cases to PIPs initially on a small scale. ORO will review the cost of operation and question of fees and cost recovery rate after the implementation of the outsourcing.

25. ORO will also consider the proposed "cab-rank" system and some form of authorisation of PIPs in the context of the evaluation of the implementation of the pilot outsourcing in the future.

Recoverability of the outstanding advances to the United Nations High Commissioner for Refugees (Paragraphs 15 to 16 of Part 4 of P.A.C. Report No. 45)

26. The Administration has continued to urge the United Nations High Commissioner for Refugees (UNHCR) to make renewed efforts to appeal to the international community for donations 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 February 2007 for this purpose.

27. In view that the UNHCR is still facing budget constraints and other more pressing refugees and humanitarian issues, it is not optimistic that repayment could be made in the foreseeable future. Nevertheless, the Administration will continue to pursue repayment of the outstanding advances.

Footbridge connections between five commercial buildings in the Central District (Paragraphs 17 to 18 of Part 4 of P.A.C. Report No. 45)

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

29. The Administration is discussing the implementation details of the proposed SCL scheme, and way forward for the footbridge proposal, with the railway corporations in the context of the proposed rail merger.

Residential services for the elderly (Paragraphs 23 to 24 of Part 4 of P.A.C. Report No. 45)

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 Social Welfare Department (SWD) regarding the provision of infirmary care

30. We consulted the Elderly Commission and LegCo Panel on Welfare Services (Panel) earlier on the proposal to launch a trial scheme to provide subsidised infirmary care to medically stable infirm elders in a non-hospital setting. To ensure provision of adequate medical support for elders under the trial scheme, we are working with HA on the medical package to be provided by HA's Community Geriatric Assessment Team for the trial scheme. We aim at briefing the Panel on the details of the trial scheme in the second or third quarter of 2007.

Special Finance Scheme for small and medium enterprises (Paragraphs 27 to 28 of Part 4 of P.A.C. Report No. 45)

31. 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 (HKMA) as necessary. So far 1 401 claims involving a total of \$324 million have been settled. Another 20 claims involving a total of \$11 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 28 cases involving a total of \$9 million.

Small house grants in the New Territories (Paragraphs 29 to 32 of Part 4 of P.A.C. Report No. 45)

Implementation of small house policy

32. In taking forward the small house policy review, the Administration has identified and considered a wide range of issues. Some proposals have been formulated and put into implementation. The remaining issues, which are complex in nature, require further and careful deliberation within the Administration.

Public markets managed by the Food and Environmental Hygiene Department
(Paragraphs 33 to 36 of Part 4 of P.A.C. Report No. 45)

Review of the demand for public market facilities

33. The Health, Welfare and Food Bureau (HWFB) and FEHD are reviewing the wet market policy and will consult LegCo and relevant stakeholders on any major findings and recommendations prior to implementation. In parallel, FEHD will continue to implement measures to improve the facilities and viability of wet markets.

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

34. The study on closure of non-viable markets conducted by HWFB and FEHD is scheduled for completion in the third quarter of 2007. The relevant stakeholders including the affected stall tenants and the relevant DCs will be consulted before finalisation.

35. In response to a request from the Food and Environmental Hygiene Committee (FEHC) of the Yau Tsim Mong DC (YTMD), FEHD consulted the tenants of the Mong Kok Market on the proposal to close down the Market due to viability problems. However, most of the tenants did not support the proposal. When FEHC of YTMD was consulted again on 20 July 2006 on the closure proposal, they agreed that the Market should be closed down, but considered that the Administration should further enhance the package offered to the affected tenants. YTMD's suggestion is being considered in the overall context of the study on closure of non-viable markets.

Buildings Department's efforts to tackle the unauthorised building works problem (Paragraphs 37 to 38 of Part 4 of P.A.C. Report No. 45)

The Coordinated Maintenance of Buildings Scheme (CMBS)

36. Under the new modality of CMBS, the Buildings Department (BD) selected 150 target buildings under CMBS 2005 which commenced in April 2005 for improvement of building safety and outlook. BD has initiated enforcement action against those owners who have not taken action according to the advisory letters issued by the department on the scope and nature of the improvement works required for their buildings. As at the end of February 2007, BD issued a total of 147 repair orders and 3 386 removal orders to the uncooperative owners of the target buildings. Moreover, owners of the target buildings are encouraged to form Owners' Corporations (OCs) to coordinate improvement works. Out of the 150 target buildings (70 of which were without OCs when they were first included in the Scheme), 40 have formed OCs and 61 have appointed Authorised Persons (APs) to commence the improvement works. Repair works of 14 buildings have been completed and those for 35 buildings are in progress, and 2 898 unauthorised building works have been removed.

37. BD continues to adopt the new modality in CMBS 2006 which commenced in April 2006. The Scheme covers another 153 target buildings and BD has recently begun the compliance inspections and been taking enforcement actions against the uncooperative owners. As at the end of February 2007, BD issued a total of 82 repair orders and 2 347 removal orders. Out of the 153 target buildings (64 of which were without OCs when they were first included in the Scheme), nine have formed OCs and 22 have appointed APs to commence the improvement works. Repair works of one building have been completed and those of 12 buildings are in progress. BD will continue with the necessary follow-up actions.

38. BD will continue to adopt the new modality in CMBS 2007, which will commence in June 2007 and cover another 150 target buildings.

39. In parallel, the Hong Kong Housing Society (HKHS) has been providing technical support to the owners of the target buildings, including advice on the procedures for forming OCs. In addition, HKHS will continue to provide financial assistance to the owners through the Building Maintenance Incentive Scheme to facilitate the formation of OCs and support the repair works.

Planning and provision of public secondary school places (Paragraphs 39 to 40 of Part 4 of P.A.C. Report No. 45)

Schools places provided by Direct Subsidy Scheme (DSS) schools

40. At present, the DSS school places account for about 6.6% of the total provision of places in public sector schools. The Education and Manpower Bureau will, from time to time, monitor the development of DSS schools, including their enrolment situation and future development plan.

The acquisition and clearance of shipyard sites (Paragraphs 41 to 42 of Part 4 of P.A.C. Report No. 45)

Resumption and Clearance of the North Tsing Yi Shipyard Site

41. The Administration is considering how best to implement the recommendations. Given the fact that some tenants of short-term tenancies may have genuine financial and practical difficulties in arranging for the demolition of their structures, there may be a need to exempt certain clearers from the self-demolition requirement on compassionate grounds. The relevant bureaux and departments are examining this matter. Subject to the outcome of the foregoing exercise, the Director of Lands (D of L) will amend the Lands Administration Office Instructions as recommended by the Director of Audit (D of A).

Assessment of contamination at the Penny's Bay shipyard site

42. The ex-lessee of the Penny's Bay shipyard site had made an application to the Lands Tribunal to determine certain points of law as preliminary issues to facilitate the determination of the appropriate basis for assessing the compensation. The application was heard by the Lands Tribunal from 22 to 25 January 2007 and from 2 to 4 April 2007. The judgment is expected to be handed down probably in June/July 2007. Thereafter, the parties will proceed to prepare for the substantive hearing of the application if there is no appeal from either party against the judgment.

Funding of tertiary education (Paragraphs 43 to 44 of Part 4 of P.A.C. Report No. 45)

UGC's endeavours in benchmarking the cost of tertiary education

43. The consultancy study commissioned by UGC on the review of the costing practice of UGC-funded institutions has been completed. UGC agreed to the recommendation of the consultancy study that the existing costing system of UGC-funded institutions should be refined through the incorporation of essential features of an activity-based costing methodology, and refinements to the funding methodology will be considered by UGC in the upcoming triennium funding exercise. To take forward the recommendation, the institutions have started refining their costing system in the 2006/07 academic year.

44. As UGC has completed its review on the costing practice of UGC-funded institutions, we recommend deleting this part from the next progress report.

Funding of self-financing activities

45. According to UGC-funded institutions, all directly identifiable costs of the operation of student hostels have been fully met by hostel fees. UGC is ascertaining the amount of overhead charges involved in student hostel operation and will examine how such charges should be dealt with in consultation with the institutions. UGC aims to complete the process by the end of 2007.

Refund of government rents and rates

46. Having consulted the Administration and UGC-funded institutions, UGC has incorporated the eligibility criteria for refund of rates and government rents into UGC Notes on Procedures in February 2007. As action has been completed, we recommend deleting this part from the next progress report.

Government subsidies to the English Schools Foundation (Paragraphs 47 to 48 of Part 4 of P.A.C. Report No. 45)

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

Corporate governance and Headquarters administration of the English Schools Foundation (Paragraphs 49 to 50 of Part 4 of P.A.C. Report No. 45)

Corporate Governance

48. The English Schools Foundation (Amendment) Bill 2007, a private member's bill sponsored by the Honourable Abraham Shek, will soon be introduced into LegCo. The Bill proposes amendments to ESF Ordinance so as to give effect to a new governance framework, 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 not be any employees sitting on the Audit Committee nor the Remuneration Committee.

49. Separately, ESF plans to make a new set of regulations under ESF Ordinance which will be laid before LegCo for scrutiny. ESF expects that the legislative proposals will address the key issues of concern raised by PAC^{Note}.

Action Plan

Encl. 2 50. ESF has updated its action plan as at May 2007 at Enclosure 2. For most of the remaining recommendations of PAC, full implementation is subject to the enactment of The English Schools Foundation (Amendment) Bill 2007. In particular, we note the following progress –

- (a) On financial management, while ESF cannot rule out the financial facility of a bank overdraft in its operation, it has already achieved a significant reduction of overdraft use, e.g. from \$98.6 million in the year ended 31 August 2003 to no overdraft outstanding in the year ended 31 August 2006. ESF will continue to adopt appropriate financial management measures to minimise the use of bank overdraft. Since follow-up action has been completed, we suggest deleting the relevant item (i.e. Item 2(b) under Enclosure [2]) from the next progress report.

Note These include –

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

- (b) On staff remuneration and recruitment, ESF has taken the opportunity of contract renewals to apply the revised remuneration package to teachers whose contracts expire in September 2007. Separately, ESF has also completed the remuneration review for senior staff and implemented the recommendation of the review in March 2007. Since follow-up action has been completed, we suggest deleting the relevant items (i.e. Items 3(a) and 3(c) under Enclosure [2]) from the next progress report.

School administration of the English Schools Foundation (Paragraphs 51 to 52 of Part 4 of P.A.C. Report No. 45)

Encl. 3

51. The latest ESF's action plan as at May 2007 in respect of outstanding matters is at Enclosure 3.

Grant of land at Discovery Bay and Yi Long Wan (Paragraphs 53 to 54 of Part 4 of P.A.C. Report No. 45)

Site boundaries of Discovery Bay and Yi Long Wan development

52. D of L is consulting relevant parties on the implementation of practical measures to deter encroachments on Government land during the construction period of a development, and to monitor and identify for rectification such encroachments.

53. Following receipt of legal advice, D of L is taking action to tackle the land encroachment problems of the Yi Long Wan development

Development of a site at Sai Wan Ho (Chapter 1 of Part 7 of P.A.C. Report No. 45)

54. The Government has accepted all recommendations made by D of A and PAC concerning the development of a site at Sai Wan Ho. With the concerted efforts of the Planning Department, Lands D, BD, Architectural Services Department and Housing, Planning and Lands Bureau, the Government has been taking positive steps to implement all of the recommendations. Progress of various improvement measures has been elaborated in the concerned progress report submitted in September 2006.

55. We are reviewing whether it is appropriate to impose a maximum gross floor area (GFA) clause in the leases of future sale sites of Government land. Apart from the merits and demerits of this proposal, 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. We are carefully considering the recommendation of PAC in reviewing the criteria for deciding under what circumstances the maximum GFA of a particular site should be specified, and will conduct consultations with the stakeholders concerned before determining the way forward.

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

REPORT ON THE RESULTS OF VALUE FOR MONEY AUDITS (Report No. 46)

Chapter 1 – Collection of fines imposed by Magistrates' Courts

Review on the effectiveness of the measures for improving the collection of fines

57. The Administration appreciates the need for regular reviews to track implementation of the accepted recommendations of Audit and PAC, assess the effectiveness of the improvement measures and identify room or further measures for improvement. FSTB met with the Judiciary Administration and departments concerned in April 2007 to review the progress of implementation. We expect that the implementation of the improvement measures will render the collection of fines a more effective and co-ordinated process, and hence see no need for designating a specific body to oversee and co-ordinate the inter-departmental efforts. We will conduct a review with parties concerned in one year's time to assess the extent of improvement to the collection of fines.

Criteria for application of distress warrants relating to parking contraventions

58. To enhance the action against defaulters who have outstanding traffic fines, the Hong Kong Police Force (Police) and departments concerned have agreed to revise the criterion for the application of distress warrants relating to parking contraventions from "when the vehicle licence of the offending vehicle has expired for two years" to "as soon as the vehicle licence expires" and to adjust downward the threshold of application from \$50,000 to \$5,000. With the implementation of the changes, the warrants would be issued to the defaulters more promptly.

59. The above changes require modifications to TD's Vehicles and Drivers Licensing Integrated Data (VALID) computer system. Since TD is in the process of upgrading its computer system from VALID III to VALID IV, the modifications could only be made after full development of VALID IV project tentatively scheduled for August 2007. The Police and TD are sorting out the details for making necessary enhancements to VALID IV system upon its full development to facilitate early implementation of the proposed changes of application criteria.

Criteria for the issue of warrants relating to moving offences

60. To enhance the action against defaulters who have outstanding traffic fines, the Police and departments concerned have agreed to remove the existing threshold of \$1,500 for the application of non-payment warrants relating to moving offences.

61. The change requires modifications to TD's VALID computer system, same as that mentioned in paragraph 59 above. The Police and TD are sorting out the details for making necessary enhancements to VALID IV system upon its full development tentatively scheduled for August 2007 to facilitate early implementation of the proposed change of application criteria.

Multiple applications for distress warrants in respect of the same defaulter

62. Departments concerned have agreed that applications for distress warrants be made at the designated court of the area in which the defaulter's registered address is located, irrespective of the court at which the order for payment is made. As such, all applications for distress warrants in respect of the same defaulter will be made at the same court, i.e. the court nearest to the defaulter's place of abode.

63. The above change will necessitate adjustments to the Judiciary's Computerised Case and Summons Management System, and will take effect upon the completion of necessary enhancements also required for TD's computer system after the full development of VALID IV project.

Actions taken by the prosecuting departments to ensure that they will respond promptly to the General Offices of Magistrates' Courts on the requests for additional information about defaulters as well as by the Judiciary Administration to ensure that the General Offices will promptly follow up with the prosecuting departments concerned if replies are not received and after receipt of additional information on further execution attempts

64. The Judiciary Administration considers that any actions taken to ensure prompt response from the prosecuting departments to the requests for additional information about defaulters will be helpful to the bailiffs in the Judiciary for making further execution attempts. In this regard, the General Offices will send reminders to the prosecuting departments concerned if replies are not received after two months from the date of the request for additional information.

65. Upon receipt of any additional information, the General Offices will promptly send it to the bailiffs. Target has been set for making further execution attempts within seven working days after supply of additional information and upon the Magistrates' directions.

66. We will continue to monitor the situation and consider the need for introducing any further improvement measures.

Arrangement to include defaulters with five or more non-payment warrants in the Immigration Department (Imm D)'s watch list and intercept them at the control points for action by the Police

67. Imm D has since 15 April 2007 included defaulters with five or more non-payment warrants in its watch list and intercept them at the control points for action by the Police. The two departments will review the arrangement after it has operated for 12 months.

Proposed legislation to empower Magistrates to award costs when making orders under section 3A and 3B of the Fixed Penalty (Criminal Proceedings) Ordinance (Cap 240)

68. The proposed legislative amendment to enable Magistrates to order costs when making orders in respect of moving violation fixed penalty notices under section 3A of the Fixed Penalty (Criminal Proceedings) Ordinance (Cap 240) has been included in the Statute Law (Miscellaneous Provisions) Bill 2007. The first reading of the Bill took place on 25 April 2007.

Measures adopted by the Judiciary Administration, in cases where the defaulters are vehicle owners who have large amounts of outstanding parking fines, to ensure that seizure of the defaulters' vehicles is proactively used as a means of recovering the outstanding fines

69. The Judiciary Administration and the Police will explore the feasibility of seizing a defaulter's vehicle by the bailiff in executing a distress warrant as well as other possible measures for improving the success rate of executing distress warrants by the bailiffs.

REPORT ON THE RESULTS OF VALUE FOR MONEY AUDITS (Report No. 47)

Chapter 3 – Allocation of public rental housing flats

70. The Housing Department (HD) has agreed with the audit recommendations and has initiated actions to address the audit issues.

Handling of applications for the allocation of public rental housing (PRH) flats

Verification of declared income and assets

71. HD has implemented a series of tightening-up measures to require PRH applicants to produce more documentary proof on income and assets such as bank statements, Mandatory Provident Fund statements, or tax returns for verification against their declarations in these aspects. Critical examination and proper file records have been made and relevant internal guidelines have been updated. The requirement for applicants to declare updated information on income/assets at the respective estate office at the time of intake has continued.

Delay in deleting the names of deceased persons

72. HD has issued internal guidelines on the specific need to delete the names of deceased persons from the Waiting List (WL) promptly, especially for applications under various elderly priority schemes so as to ensure that the applications concerned remain eligible for allocation of a PRH flat under the relevant scheme. Enhancement of the new computerized management information system is being explored with a view to creating an automatic reminder to the processing staff to effect timely deletion of deceased persons.

In-depth checking of selected applications

73. HD's Public Housing Resources Management Sub-section (PHRMS) (formerly known as Task Force Against Abuses of Public Housing Resources) has extended their action from assets check to in-depth checking of both income and assets to ensure that the applications referred to it are thoroughly scrutinized.

Investigation cases referred to the Task Force (now renamed as PHRMS)

74. HD has critically reviewed the existing measures and practice of referring cases to PHRMS for in-depth checking, and a revised guidebook specifying the referring conditions is in place for staff to follow.

Prosecution of PRH applicants

75. HD has taken and will continue to take prosecution action promptly against persons who knowingly make a false statement in PRH application. Efforts have been stepped up for publishing convicted cases in order to achieve a better deterrent effect. Notices of convicted cases are posted up at prominent places at Lok Fu Customer Service Centre for alerting the applicants.

76. HD has provided more training opportunities to front-line interviewers to enhance their technique in detecting irregularities from applicants and in taking evidence against suspected offenders.

Reservation of PRH Flats

Flats reserved by the Urban Renewal Authority (URA)

77. Although URA is obliged to hold a minimum sufficient number of flats to meet the demand at various stages of their clearance project which normally take two to four years to complete, HD has stepped up the monitoring of the flat reservation by URA and URA has responded positively by de-reserving the flats considered no longer required for early disposal by HD. To further strengthen the control, the senior management of both HD and URA meet quarterly to critically review the overall position, especially in respect of the flats reserved for over 12 months.

Monitoring of flats reserved by estate offices

78. HD has reviewed and enhanced the monitoring mechanism for flats reserved by estate offices, including the introduction of automatic de-reservation of flats which have been reserved for a certain period of time without a firm commitment of use. Approval from higher authority with strong justification is required for prolonged reservation with genuine need. With the implementation of the new measures, a drop of flats reserved for estate use has been observed in the past few months. HD will continue to closely monitor the situation.

Release of flats reserved by estate offices

79. To ensure that estate offices submit all the confirmation and standard forms on the reserved PRH flats on time, a checklist and a follow-up reminder have been put to practice. To further speed up the process and to overcome the possible mislaying of correspondence between the estate offices and the headquarters, replying by "fax to e-mail" has been adopted.

80. To ensure prompt letting of flats and to stay alert on the financial impact of flat reservation, the rental loss due to flat reservation is listed so as to prompt staff's critical examination and action for early disposal of the flats not required.

Flats withheld for major repairs

81. For flats withheld from letting for major repair works, HD has escalated the monthly monitoring system to the senior management level for ensuring early completion of the repair works and release of flats for letting. The number of vacant flats so withheld has dropped progressively. HD will continue to closely monitor the situation.

Provision of Housing for Senior Citizens (HSC)

High vacancy rate of HSC units

82. To address the high vacancy rate of HSC units, the Subsidized Housing Committee of the Housing Authority approved in July 2006 a long term plan to convert HSC units surplus to demand into normal PRH flats with a conversion target of 500 units a year. Suitable HSC units have been identified. The programme has been rolled out since late 2006.

83. The HSC in Tin Chak Estate, which has a high vacancy rate, has been included in the first stage of the HSC conversion programme. To put the vacant units of this HSC to effective use, HD has let some of its vacant units to three non-government organisations rendering social services. Converting the remaining vacant units to other beneficial uses are being explored.

84. HD will continue to closely monitor the overall supply and demand of HSC units in the coming years. Vacant HSC units not included in the conversion programme will continue to be offered to PRH applicants through normal allocation and the Express Flat Allocation Scheme (EFAS).

Provision of Interim Housing (IH) Flats and Accommodation in Transit Centres (TC)

Registration of IH licensees on the WL

85. HD has taken effective measures to ensure that all IH licensees apply for registration on the WL as required by the licensing requirement. Special arrangements have been made to send registration teams to the IH estates to provide on-site registration service to the licensees. HD has taken enforcement action on those failing to respond within a reasonable period. They are allowed to remain in the IH for a maximum period of 12 months only and are required to pay additional licence fees.

IH licensees ineligible for the allocation of PRH flats

86. HD has stepped up the enforcement action in respect of IH licensees ineligible for the allocation of PRH flats but have stayed in the IH flats for over one year, in strict accordance with the prevailing policy. In addition to tightening up the enforcement control, HD has reviewed the existing practices on IH management and issue new guidelines to staff.

High vacancy rate of IH flats

87. HD has critically reviewed the minimum number of IH flats required to meet operational needs, and will take prompt action to convert the IH flats surplus to requirement into other beneficial uses. HD is finalizing the way forward for Kwai Shing East and Shek Lei (II) IH estates, and proposals will be put forward to the relevant committee of the Housing Authority in due course.

High vacancy rate of TC

88. HD will keep in view the demand for temporary accommodation in TC and consider the conversion of surplus units in Po Tin TC accordingly.

Long period of stay of residents at TCs

89. HD has expedited action to ascertain the eligibility of TC residents and to rehouse eligible residents to PRH/IH flats. HD has also referred cases ineligible for rehousing to PRH/IH but with justifiable reasons to SWD or non-government organisations for professional assistance. Following the successful rehousing of all the remaining residents, the Wong Chuk Hang TC has been closed.

Letting of Less Popular Flats

Identification of less popular flats

90. HD has implemented a number of measures for ensuring the timely identification of unpopular flats in estates for inclusion in the EFAS exercises. A tighter monitoring system by means of a control register on the inflow of information on the less popular flats from the estates offices has been introduced to ensure that timely feedback is properly collected.

Acceptance of less popular flats by applicants on the WL

91. To facilitate a better acceptance rate of the less popular flats, HD has planned that, in the next EFAS exercise to be held in mid-2007, applicants who have failed to select a flat in the first round will be given a second chance to make another selection from those flats rejected by applicants in the first round. HD will continue to exercise flexibility in relaxing the allocation standard on flat size for less popular flats in justified cases.

92. HD is mapping out the implementation details of introducing a rent-free period for tenants moving into flats which have been vacant for a prolonged period such as 12 months or more.

Remedial actions to improve the conditions of less popular flats

93. To improve the conditions of the less popular flats, HD has carried out a toilet modification scheme for the one-person units in Po Tin Estate. The scheme has subsequently been extended to the other flat types in Po Tin and Tin Yan Estates. HD has also drawn up new transfer schemes, such as the regional transfer scheme, to further dispose of the unpopular flats in Tuen Mun, Yuen Long and Tung Chung areas. For vacant flats in Lung Tin Estate, HD continues to explore the possibility of converting them into other uses.

94. HD has randomly enquired the applicants attending the latest EFAS flat selection for their reasons for not selecting a flat. HD's survey on WL applicants for PRH conducted in August 2006 also included a part on applicants' views on EFAS. Findings on both surveys will be incorporated in the planning of the next EFAS.

Chapter 4 – Four small and medium enterprise funding schemes

95. The Trade and Industry Department (TID) has implemented most of the recommendations in the Audit Report.

SME Export Marketing Fund (EMF)

Continuing to strengthen the monitoring system

96. TID will continue to review the monitoring and control system from time to time, with a view to maintaining a balance between prudent management of public resources and the need to ensure user-friendly access of EMF by SMEs.

Re-examining some of the paid claims

97. TID has completed the re-examination of the 138 cases in which SMEs had submitted applications within one month of their business registration. We have also identified another 38 applicants which are related to the applicants of the 138 cases. Of the 176 companies involved, we have reasons to suspect that 23 were set up for the purpose of circumventing the grant ceiling. Of the 23, 18 have closed down. We have taken action to recover the grants paid to the other five companies, the amount involved being \$288,550. In fact, since October 2004, TID has requested all SMEs which submit applications within six months of their business registration to provide proof of substantive business operation.

Rectifying deficiencies of the computer system

98. Enhancements to the computer system were made in mid-2006. The excess grants of \$74,816 paid in all the five cases identified in D of A's report have been fully recovered.

Extracting exceptional cases regularly for follow-up review

99. Since October 2006, TID has started running exception reports from the computer system, on a bi-monthly basis, to identify possible abuse cases for follow-up action.

Developing additional performance targets and indicators

100. TID has included “number of SME beneficiaries” and “amount of government grants approved” as new indicators in the Controlling Officer’s Report in the 2007-08 Draft Estimates.

Setting up a mechanism to collect information on benefits gained by SMEs

101. TID is taking steps to engage an independent agent to collect, from SMEs which receive grants from EMF, information on the benefits they gain or expect to gain from the Fund. The Small and Medium Enterprises Committee (SMEC) will be consulted as appropriate.

Conducting an effectiveness review of EMF

102. TID will review the overall effectiveness of EMF later this year in consultation with SMEC. The information collected from SME beneficiaries (see paragraph 101 above) will be a source of reference in the review.

SME Training Fund (STF)

Re-examining some of the paid claims

103. TID has completed the re-examination of all cases in which the applicants had claimed STF grants both as employers and employees of the same SME. Of the 144 trainees involved, 29 had obtained excess grants totalling \$106,221. We have taken action to recover the excess grants paid, and have recovered about half of the amount.

Examining the 3 100 outstanding grant applications thoroughly

104. All reimbursement applications are subject to thorough scrutiny. Of the 3 100 cases outstanding as at end July 2006, 1 100 have been approved, 900 have been rejected and 800 have not submitted reimbursement claims within the stipulated time limit. We expect to complete the processing of the remaining 300 cases by June 2007.

SME Loan Guarantee Scheme (SGS)

Compiling loan default rates by various parameters

105. TID has included the size, years of establishment and business nature of SME beneficiaries as additional parameters in the analysis of loan default rates.

Monitoring closely the default rates of the participating lending institutions (PLIs)

106. TID has been monitoring the loan default rates of individual PLIs on a weekly basis. Since November 2006, TID has been compiling more detailed management reports to keep a close watch on default rates. If necessary, we will contact the relevant PLIs for clarification or further information. If warranted, we will withhold the issue of new guarantees to PLIs.

Taking measures to monitor applications from related SMEs

107. TID has reminded PLIs to make cross-reference to related borrowers/guarantors when considering loan applications, in accordance with the Supervisory Policy Manual issued by HKMA.

Collecting information on details of the major owners of SME applicants

108. Since December 2006, TID has been requesting SME applicants to provide details of their major owners to guard against possible circumvention of the guarantee ceiling by applicants (through having different business registrations).

Conducting thorough vetting of default claims

109. All along TID has been carefully assessing each and every default claim submitted by PLIs to make sure that they have exercised prudence and due diligence when approving the loans. In case of doubt, TID will seek clarification from PLIs. We will request access to PLIs' loan files if necessary.

Reviewing the need to devote more resources to SMEs in the service sector

110. SMEC has set up a working group to review the scope and operation of SGS. The question of whether and, if so, how SMEs in the service sector might be better assisted under SGS will be looked into as part of the review.

Ensuring SME applicants have substantive business operations in Hong Kong

111. TID has all along been requiring PLIs to confirm that an SME applicant has substantive business operation in Hong Kong if the applicant submits application within six months of its business registration. This requirement has now been extended to all applications (regardless of how long SME has been established).

Assessing the additional impacts of the Scheme

112. TID is taking steps to engage an independent agent to collect information (e.g. number of local jobs created) from SME beneficiaries to assist in the assessment. SMEC will be consulted as appropriate.

Developing additional performance targets and indicators

113. TID has included “number of applications received and processed” and “number of SME beneficiaries” as new indicators in the Controlling Officer’s Report in the 2007-08 Draft Estimates.

Drawing on overseas experiences in measuring the performance of the Scheme

114. TID is studying overseas experiences to see whether and, if so, what additional performance indicators might be put in place to help assess the effectiveness of SGS. SMEC will be consulted as appropriate.

SME Development Fund (SDF)

Monitoring closely the number of applications

115. TID has all along been closely monitoring both the number as well as the quality of applications. We have adopted a proactive approach to publicise and promote SDF through various channels (e.g. publicity pamphlets, invitation letters to trade bodies, briefing sessions, and meetings with potential applicants). We are stepping up these outreaching efforts.

Providing quantitative measurements on the adoption of project results

116. TID has put in place arrangements to request successful applicants to provide, as far as possible, quantitative measurements on the adoption of project results by SMEs.

Further publicising project results

117. A new icon has been added, in January 2007, to the website of TID Support and Consultation Centre for SMEs to facilitate the public in searching for SDF project results. We have also enhanced SDF webpage by providing hyperlinks to all websites related to funded projects.

Developing additional performance targets and indicators

118. TID has included “amount of government grants approved” as a new indicator in the Controlling Officer’s Report in the 2007-08 Draft Estimates.

Setting up a mechanism to monitor achievements

119. TID has put in place arrangements to request all successful applicants to help assess the benefits of the funded projects to SMEs by collecting the latter's feedback. The information will be a source of reference in a review, to be carried out later this year by TID in consultation with SMEC, on the overall effectiveness of SDF.

Chapter 5 – Hospital Authority : management of outstanding medical fees

120. HA is committed to improving the management of outstanding medical fees. The measures that HA has taken or is taking on the conclusions and recommendations contained in PAC Report are set out below in detail.

Collection of outstanding fees

Fee collection

121. HA has put in place measures to facilitate payment of medical fees by patients, which consequentially should help to enhance collection of outstanding fees. At the hospital level, the counters at the Accident and Emergency Departments (A&EDs) have started accepting an extended range of medical fees and deposits since the end of March 2007 to provide round-the-clock on-site payment facilities to patients. In addition, HA has piloted the use of self-payment kiosks for the collection of drug charges at one hospital with favourable results. HA will extend the use of such kiosks to other public hospitals in 2007-08, and to include payments for outpatient fees as well.

122. HA will also extend the collection of medical fees through automated teller machines and convenient stores. Subject to finalisation of the tendering procedures, HA expects that these additional means of making payment would be available by September 2007.

Debt recovery procedures

123. HA has issued enhanced guidelines on debt recovery to hospitals with a view to putting in place better control over the recovery process and expediting action at the hospital level. Since the beginning of 2007, hospitals have been required to obtain address proof from all users of their inpatient services; issue bills to patients more frequently at intervals of seven days (instead of 14 days); follow-up with patients for outstanding payments by telephone within 14 days (instead of 45 days) after the date of discharge; complete all follow-up calls within 60 days (instead of 90 days) from the issuance of the final notice; and keep detailed records of all telephone calls made to patients. Hospitals are also required to refer default cases to HA Head Office for further follow-up within four months (instead of six months) after issuance of the final bills. If there are potential high-value default cases (exceeding \$300,000), hospitals are required to give HA Head Office an early warning of such cases to facilitate the initiation of more robust debt collection action.

124. To complement the enhanced debt recovery procedures at the hospitals, HA has also streamlined and tightened up the debt recovery procedures at the Head Office. The fee collection team at HA Head Office will more actively issue warning letters for payment default cases as appropriate, and all outstanding fees owed by the same individual defaulter will be taken into account in HA's fee recovery action.

125. HA will expedite taking legal action against defaulters. The fee collection team at HA Head Office is now targeting to file claims against defaulters at the appropriate court level within six months from the date of their discharge from hospitals. Moreover, apart from the application of a writ of Fieri Facias for the enforcement of judgements handed down by the Small Claims Tribunal, HA will consider using other enforcement methods (e.g. application for charging order on patient's properties, institution of bankruptcy proceedings, etc) on a case-by-case basis as appropriate.

Manpower of fee collection team in HA Head Office

126. HA has increased the number of staff (initially double the number) at the Head Office who are actively involved in the collection of outstanding fees to implement the new measures described in paragraphs 124 and 125 above. The manpower requirement of the fee collection team will be kept under review.

Measures to minimise the need for recovery and write-off of fees

Introduction of an administrative charge for late payments

127. HA is now working out a detailed proposal on the imposition of administrative charges on late payments, with a target implementation date of June 2007.

Collection of deposit payment from eligible persons (EPs) for hospital stay

128. At present, all non-eligible person (NEP) patients are required to pay deposits upon admission into public hospitals, or advance payment in full in the case of NEP pregnant women who make bookings for obstetric inpatient services. HA may extend such measures to EPs when the situation so warrants so as to improve the fee collection and recovery situation.

Use of public medical services by NEPs

Curtailement of non-emergency medical service

129. In line with its policy that priority should be given to local residents in utilising public healthcare resources, HA will cease providing non-emergency medical treatment to NEP defaulters before they have settled the outstanding payments. In this connection, HA has already enhanced its computer system such that registration staff are alerted when patients with outstanding fees return for service. The tentative implementation date is June 2007.

Use of reputable debt collection agency to pursue outstanding fees owed by NEPs

130. HA has held initial discussion with a number of debt collection agencies and a law firm in the Mainland to gather information on available services and explore viable options for pursuing bad debts owed to HA by NEPs from the Mainland. HA is assessing the cost effectiveness of these services and will report findings to HA Board for final decision before September 2007.

New obstetric service arrangements for NEPs

131. While the default rate by NEP pregnant women was about 15% compared with the overall default rate by all NEP patients which stood at about 25% in 2006-07, HA is conscious of the need to recover default payments from all groups of users as far as possible. New obstetric services arrangements in HA hospitals have been implemented since 1 February 2007 where NEP pregnant women who wish to give birth in Hong Kong are required to make full non-refundable payments for the booking of obstetric services before delivery. Implementation of the new booking arrangements should have helped to improve the payment rates by NEP pregnant women. The number of births by NEP pregnant women in public hospitals in the first nine weeks (i.e. between 1 February and 4 April 2007) has dropped by an average of 35.9%, while the number of NEP pregnant women who sought emergency hospital admission through A&EDs has dropped by 75.7%, compared with the same period in 2006.

Chapter 6 – Hospital Authority and Social Welfare Department : management of medical fee waivers

132. Both HA and SWD have conscientiously and continuously worked together to improve the management of medical fee waivers. Various enhancement measures, such as revising the waiving guidelines; strengthening clerical support to SWD Medical Social Work Units (MSSUs); implementing quality assurance checks on approved waiver cases; and referring suspicious and high-risk cases to the newly set up Post-approval Checking Team (PACT) of HA for investigation, have been or are being implemented. A detailed account is listed below.

Guidelines for processing of waiver application

133. PAC was concerned about the inadequacies in the financial assessment of waiver applications conducted by the Medical Social Workers (MSWs). In this regard, there is a comprehensive set of waiver guidelines which is the main tool for MSWs to base on in processing medical fee waivers. In line with their normal practice, HA and SWD review and update the guidelines from time to time. These guidelines were last revised in March 2006. In addition, a set of Frequently Asked Questions (FAQs) on medical waivers was also issued in August 2006 and updated in November 2006. The revised guidelines and FAQs have addressed mostly the concerns of PAC and the Audit Commission in relation to the processing of medical fee waivers, which are detailed in paragraphs 134 to 141 below.

Granting of waivers on financial grounds

134. MSWs are now required to indicate clearly the types of financial documents that they have checked on the assessment form for waiver. For cases warranting special attention, MSWs will keep copies of the applicants' financial documents for record and future reference.

135. For patients with unstable monthly income, MSWs are required to check the patients' financial records in the past three to six months to ascertain their eligibility for waivers. In cases where the applicants cannot produce the required financial records, MSWs will exercise their professional judgment on whether there are justifiable grounds for granting waivers. If so, the applicants may be required to make a self-declaration in lieu of further documentary proof and MSWs should document the reasons accordingly.

136. MSWs are also required to examine the bank statements or passbooks in detail and pay special attention to any large or unusual transactions, for which the applicants will need to explain. If MSWs consider the explanations acceptable or otherwise, they will document the reasons on the assessment forms. MSWs should also make photocopies of the bankbooks showing the large or unusual transactions and put them on file for record and future reference.

Granting of waivers on non-financial grounds

137. MSWs are required to document specifically the justifications for granting waiver on non-financial grounds. FAQs include some practical examples in handling cases where the income or assets of applicants significantly exceed the financial limits but there are non-financial grounds that warrant MSWs' consideration.

138. For applicants whose household income or assets exceed the financial limits but put forward special expenses incurred by themselves or their families as a reason for application for waivers, MSWs are required to record in the assessment forms such expenses declared by the patients and to indicate the types of documents checked. In case a patient cannot produce documentary proof, he/she will have to explain the reason. In such cases, MSWs will exercise their professional judgment on granting waiver on non-financial grounds and document the reasons for accepting applicants' self-declaration in lieu of further documentary proof or otherwise.

139. FAQs also give further elaboration on other non-financial factors and case scenarios to facilitate MSWs to exercise their professional judgment in conducting non-financial assessment. In addition, the supervisors of MSWs have been required to conduct checking on all waiver cases granted on non-financial grounds since June 2005.

Documentation of waiver assessment

140. MSWs are reminded to provide complete and accurate information with regard to waiver assessment. Starting from March 2006, MSWs' supervisors are required to conduct random checks on cases waived on financial grounds. This is in addition to the supervisory checks on all applications granted on non-financial grounds. The supervisory checking mechanism helps improve the overall quality of waiver assessment and record keeping, including the accuracy of documentation and consistency of records among the case files, the assessment forms and e-waiving records.

Granting of waivers exceeding \$7,000

141. Improvement measures for handling waivers exceeding \$7,000 have been implemented since 16 October 2006. Under the enhanced procedures, waiver case involving fees of over \$7,000 will be referred to MSWs through a computer-generated monthly report in the first week of the following month. MSWs will then prepare a summary on each case and forward it to the Hospital Chief Executive concerned for onward submission to HA Head Office to seek approval. The Audit Commission's recommendation that waiver certificates involving fees over \$7,000 should not be issued to the patients before obtaining the approval from HA Head Office is now fully complied with.

Management Control on Fee Waivers

Prevention of fraud and abuse

142. HA has set up a PACT in March 2007 to conduct investigations on suspicious and high-risk waiver cases and will take appropriate action on confirmed fraud cases.

Verification of patients' eligibility status

143. As an enhancement measure to further tighten the waiver processing system, HA and SWD are upgrading their respective computer systems to allow on-line verification of the status of Comprehensive Social Security Assistance (CSSA) recipients before the latter are granted waivers. The upgraded system, which is planned for completion by around mid-2007, will also help resolve problems when CSSA recipients are not able to produce their CSSA certificates at the time of medical appointments.

Internal audit on fee waivers

144. SWD's Internal Audit Section will conduct random internal audit reviews on waiver cases handled by MSSUs starting from mid-2007. The reviews will help identify areas for continuous improvements of the waiver system.

Provision of Waiver Service

Clerical work in processing waiver application

145. SWD has allocated additional resources to strengthen clerical support to MSWs to help relieve the latter from workload in processing waiver applications. An additional 18 General Services Assistants (GSAs) will be employed in 2007-08 to provide clerical support to those MSSUs currently without GSAs.

146. Both HA and SWD will continue to review the caseload and workflow of the waiver system to consider whether, in the long run and subject to the availability of resources, waiver cases involving financial vetting only could be handled by specialised teams.

Staff Training and Performance Management

Training on provision of waiver service

147. A Work-based Orientation Checklist, which is a form of work-based individualised learning that integrates learning with work, has been developed for SWD's officers newly posted to MSSUs. The Checklist provides necessary training roadmap and support available to MSWs in a flexible and individualised manner. Processing of medical fee waivers is one of the key areas covered by the Checklist. Training on financial assessment has been conducted regularly for MSWs. In addition, tailor-made training will continue to be provided to clerical staff to facilitate their processing of waiver applications. On-going assessment on the training needs of MSWs will be made so as to arrange appropriate training in the light of operational experience.

Quality assurance of work performance

148. The revised waiving guidelines have laid down the requirements for supervisory control over MSWs' work on waiving of medical charges. Supervisors have to submit results of their supervisory checks every six months to HA Head Office and SWD Headquarters for monitoring.

Overall performance of the Postal Mechanisation System

POMS Equipment	Performance Indicator	2004-05	2005-06	Apr - Dec 2006
Integrated Mail Processor	Mail processed as % of the total airmail letter traffic	63.20%	71.30%	78.75%
	Read rate for inward mail	29.00%	30.20%	27.75%
	Read rate for outward mail	46.30%	45.00%	46.05%
	Read rate for total mail items	39.07%	39.28%	39.40%
	Error rate for inward mail	0.78%	0.91%	0.60%
	Error rate for outward mail	1.34%	0.78%	0.67%
	Error rate for total mail items	1.18%	0.85%	0.65%
	Overflow rate	0.98%	1.30%	1.32%
	Jam rate	0.85%	0.86%	0.74%
	Packet Sorting Systems	Mail processed as % of the total packet traffic	37.30%	67.30%
Throughput rate		4 170	4 543	4 670
Overflow rate		3.62%	4.05%	5.30%
Jam rate		0.15%	0.16%	0.18%
Parcel Sorting Systems	Mail processed as % of the total parcel traffic	66.80%	66.70%	64.35%
	Throughput rate	1 383	1 446	1 653

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/ Comments (Position as at May 2007)	Remarks
1.	<p>Corporate governance</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>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; and</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>To be considered by Governance Task Force.</p>	<p>Agreed in principle by Foundation Meeting on 9 December 2004.</p> <p>By June 2005.</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>	ExCom	<p>Review of Governance : Majority of external members will be required at Board Meetings and the ExCom will be abolished under The English Schools Foundation (Amendment) Bill 2007.</p> <p>Review of Governance : Members with low attendance rates will be deemed to have resigned under the new Regulation to be made.</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 beneficiaries 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 under the new Regulation. Pending that, no staff members have been appointed to the current Conditions of Service Committees established in January 2007.</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 May 2007)	Remarks
	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.	To be considered by Governance Task Force.			Section 10(2) of the ESF Ordinance will be repealed under The English Schools Foundation (Amendment) Bill 2007. Future Regulations will have to be presented to LegCo.	
2.	Financial Management b. Adopt a more prudent method of budgeting and avoid relying on bank overdraft.	The ESF has stated that: (b) no commercial organisation would deny itself access to credit which can help maximise value for shareholders.			The use of overdraft has been significantly reduced in 2006 and the same position is likely in 2007.	On-going measure. 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 May 2007)	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; and</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>The remuneration review for teaching staff was completed and implemented in November 2005. The same for the senior staff was completed and implemented in March 2007.</p> <p>Membership of the new Remuneration Committee will be made independent of the teaching and non-teaching staff, as would be specified in the new Regulation.</p>	<p>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 May 2007)	Remarks
	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.	To be considered by RSG.	(c) Actioned (regarding the establishment of RSG)	RSG/ExCom	The new remuneration package has been implemented for all teaching staff.	Completed. To delete this item from the next progress report.
4.	Staff housing and medical benefits c. Recommends that the ESF should formulate a policy and a plan for disposing of its surplus staff quarters.	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.	To submit a paper in respect of audit recommendations in paragraph 5.31(a) and (b) to ExCom by June 2005.	ExCom	The vacancy rate for staff quarters has successfully been reduced to 2.5%. The review of property holdings will be conducted under the guidance of the new Finance Committee which is to be established under The English Schools Foundation (Amendment) Bill 2007.	

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/ Comments (Position as at May 2007)	Remarks
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>Human Resources Director</p>	<p>Incentive allowances are now being phased out over a three-year period and will progressively be replaced by a new system of awards and allowances. Performance and other management elements under a modern management structure will be taken into account in granting such awards and allowances.</p>	