

立法會
Legislative Council

LC Paper No. FC287/15-16
(These minutes have been
seen by the Administration)

Ref : FC/1/1(26)

Finance Committee of the Legislative Council

Minutes of the 56th meeting
held at Conference Room 1 of the Legislative Council Complex
on Friday, 29 April 2016, at 3:00 pm

Members present:

Hon CHAN Kin-por, BBS, JP (Chairman)
Hon CHAN Kam-lam, SBS, JP (Deputy Chairman)
Hon Albert HO Chun-yan
Hon LEE Cheuk-yan
Hon James TO Kun-sun
Hon LEUNG Yiu-chung
Hon Emily LAU Wai-hing, JP
Hon TAM Yiu-chung, GBS, JP
Hon Abraham SHEK Lai-him, GBS, JP
Hon Tommy CHEUNG Yu-yan, GBS, JP
Hon Vincent FANG Kang, SBS, JP
Hon WONG Kwok-hing, BBS, MH
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon Andrew LEUNG Kwan-yuen, GBS, JP
Hon WONG Ting-kwong, SBS, JP
Hon Starry LEE Wai-king, JP
Dr Hon LAM Tai-fai, SBS, JP
Hon CHAN Hak-kan, JP
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP
Dr Hon LEUNG Ka-lau
Hon CHEUNG Kwok-che
Hon WONG Kwok-kin, SBS
Hon IP Kwok-him, GBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP

Hon Paul TSE Wai-chun, JP
Hon Alan LEONG Kah-kit, SC
Hon LEUNG Kwok-hung
Hon Albert CHAN Wai-yip
Hon Claudia MO
Hon NG Leung-sing, SBS, JP
Hon Steven HO Chun-yin, BBS
Hon Frankie YICK Chi-ming, JP
Hon WU Chi-wai, MH
Hon YIU Si-wing, BBS
Hon Gary FAN Kwok-wai
Hon MA Fung-kwok, SBS, JP
Hon Charles Peter MOK, JP
Hon CHAN Chi-chuen
Hon CHAN Han-pan, JP
Dr Hon Kenneth CHAN Ka-lok
Hon CHAN Yuen-han, SBS, JP
Hon LEUNG Che-cheung, BBS, MH, JP
Hon Kenneth LEUNG
Dr Hon KWOK Ka-ki
Hon Dennis KWOK
Hon Christopher CHEUNG Wah-fung, SBS, JP
Dr Hon Fernando CHEUNG Chiu-hung
Hon SIN Chung-kai, SBS, JP
Dr Hon Helena WONG Pik-wan
Hon IP Kin-yuen
Hon Martin LIAO Cheung-kong, SBS, JP
Hon POON Siu-ping, BBS, MH
Dr Hon CHIANG Lai-wan, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon Christopher CHUNG Shu-kun, BBS, MH, JP

Members absent:

Dr Hon LAU Wong-fat, GBM, GBS, JP
Hon Frederick FUNG Kin-kee, SBS, JP
Prof Hon Joseph LEE Kok-long, SBS, JP, PhD, RN
Hon Cyd HO Sau-lan, JP
Hon WONG Yuk-man
Hon Michael TIEN Puk-sun, BBS, JP
Hon James TIEN Pei-chun, GBS, JP
Hon Alice MAK Mei-kuen, BBS, JP

Hon KWOK Wai-keung
Dr Hon Elizabeth QUAT, JP
Hon TANG Ka-piu, JP
Hon CHUNG Kwok-pan
Hon Tony TSE Wai-chuen, BBS
Hon Alvin YEUNG Ngok-kiu

Public officers attending:

Ms Elizabeth TSE Man-yee, JP	Permanent Secretary for Financial Services and the Treasury (Treasury)
Ms Esther LEUNG, JP	Deputy Secretary for Financial Services and the Treasury (Treasury)1
Mr Alfred ZHI Jian-hong	Principal Executive Officer (General), Financial Services and the Treasury Bureau (The Treasury Branch)
Mr Raistlin LAU Chun, JP	Deputy Secretary for Financial Services and the Treasury (Treasury) 3
Mr Frankie LUI Kin-fun	Principal Assistant Secretary for Financial Services and the Treasury (Treasury) E
Miss Helen TANG, JP	Deputy Director of Government Logistics
Ms Jessica NG Sze-hing	Acting Controller (Supplies Management), Government Logistics Department
Miss Annie CHEUNG Yin-ling	Controller (Procurement), Government Logistics Department
Mr CHOI Sum-yat	Chief Supplies Officer (Systems), Government Logistics Department
Mr Vincent LIU, JP	Deputy Secretary for the Environment
Miss Noel PUN	Assistant Secretary for the Environment (Electricity Reviews)
Miss Ada CHEN	Senior Assistant Law Officer (Civil Law), Department of Justice

Clerk in attendance:

Ms Anita SIT	Assistant Secretary General 1
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Staff in attendance:

Mr Derek LO	Chief Council Secretary (1)5
Mr Ken WOO	Senior Council Secretary(1)5
Mr Keith WONG	Council Secretary(1)5
Mr Raymond SZETO	Council Secretary(1)6
Mr Frankie WOO	Senior Legislative Assistant (1)3
Miss Yannes HO	Legislative Assistant (1)6

Action

**Item No. 1 – FCR (2016-17)8
RECOMMENDATIONS OF THE PUBLIC WORKS SUBCOMMITTEE
MADE ON 13 APRIL 2016**

**PWSC (2016-17)1
HEAD 703 – BUILDINGS
Health – Hospitals
81MM – Redevelopment of Kwai Chung Hospital**

**HEAD 708 – CAPITAL SUBVENTIONS AND MAJOR SYSTEMS AND
EQUIPMENT
Medical Subventions
13MD – Redevelopment of Kwong Wah Hospital
3ML – Expansion of Haven of Hope Hospital**

**PWSC (2015-16)62
HEAD 705 – CIVIL ENGINEERING
Civil Engineering – Multi-purpose
45CG – District Cooling System at the Kai Tak development**

The Chairman advised that the item sought the Committee's approval of the recommendations of the Public Works Subcommittee ("PWSC") made at its meeting on 13 April 2016, i.e. recommendations made in PWSC (2016-17)1 and PWSC (2015-16)62. No member requested for separate voting on the relevant recommendations at the Finance Committee ("FC") meeting.

2. The Chairman put the item to vote. The Chairman declared that the Committee approved the item.

Item No. 2 – FCR (2016-17)9

CAPITAL WORKS RESERVE FUND

HEAD 710 – COMPUTERISATION

Government Logistics Department

New Subhead – "Replacement of the Procurement and Contract Management System and the Unallocated-Store Program"

3. The Chairman said that the item invited the Committee to approve a new commitment of \$72,659,000 for replacing the Procurement and Contract Management System ("PCMS") and the Unallocated-Store ("U-Store") Program of the Government Logistics Department.

4. Mr NG Leung-sing, Chairman of the Panel on Financial Affairs, reported that the proposal of replacing the PCMS and the U-Store Program of the Government Logistics Department ("GLD") had been discussed at the Panel Meeting held on 4 January 2016. Panel members supported the funding proposal. Members enquired about the benefits of replacing the systems, the implementation timetable of the replacement project and the expenditure arrangements. The Administration had already provided a response.

5. Mr NG Leung-sing expressed support for the item.

Functions of the newly developed systems

6. Dr KWOK Ka-ki expressed support for the item. He noted that the newly developed systems would come into operation by the end of 2019. However, according to the paper, the cost and benefit analysis of the systems were only provided up to 2023-2024, which suggested that the lifecycle of the systems might be too short. He asked whether the Administration had conducted analysis to evaluate if keeping the existing systems would be more cost-effective than developing new systems. Mr Alan LEONG expressed similar concern.

7. Deputy Director, Government Logistics Department ("DD/GLD") advised that the Administration had conducted a feasibility study on the continued use of the existing systems and found that while it would be very costly to maintain their operation, the existing systems could not effectively cope with the latest business needs of the Department. She clarified that, counting from 2019 when the newly developed systems would come into operation, it was expected that the systems would operate till 2029, with a life span of 10 years.

8. Mr YIU Si-wing expressed support for the item. He asked the Administration how the U-Store items would be more effectively managed by the newly developed system, and how the existing procurement procedures would be improved.

9. Mr WU Chi-wai asked the Administration to explain how the newly developed systems would improve the management of U-Store items in various departments. Mr WU further enquired whether the newly developed systems could enhance the interface with the internal systems of other government departments, so as to improve the procurement procedures. Mr Alan LEONG also expressed similar concern.

10. DD/GLD said that the newly developed U-Store Program would be equipped with a function of automatic alerts to remind departments of the expiry dates of various U-Store items, whereas the newly developed PCMS would enable departments to directly access the list of suppliers compiled by GLD, thus facilitating various procuring and tendering processes. Moreover, the information on suppliers in PCMS would be automatically synchronized with the relevant information kept by the government departments concerned. In other words, if suppliers wished to update their particulars, they only needed to inform GLD. Furthermore, the updated PCMS would strengthen the interface with the e-Procurement System managed by the Office of the Government Chief Information Officer ("OGCIO"). The interface would be changed from one-way to two-way to facilitate the exchange of updates on suppliers' particulars. All government departments could use PCMS to make procurements that involved smaller sum of money.

11. Mr Alan LEONG and Mr WU Chi-wai enquired about the details of changes to the workflow engine introduced under the new systems for coping with business changes.

12. In response, DD/GLD cited the example that business changes included delegating the authority to make procurement decisions. For instance, the Government raised the ceiling under the delegated authority of procurement at department level from \$1.43 million to \$5 million in 2013. The workflow of the existing system was prepared in advance through hard-code programs. The lack of flexibility made it difficult to cope with business changes not envisaged at the time when the system was developed. The newly developed system would provide departments with greater flexibility and shorter lead time for configuring business rules, so as to adapt to future business changes.

13. Noting that the newly developed systems would not come into operation until 2019, Mr Alan LEONG and Mr WU Chi-wai asked how the Administration could ensure that the newly developed systems would adopt the latest technology at that time.

14. Chief Supplies Officer (Systems), Government Logistics Department advised that, as it was necessary to ensure that the newly developed systems could be compatible with the existing older systems, the Administration would need to retain certain flexibility in the course of procurement and require that the newly developed systems be able to support "Windows 7" or later versions of that operating system. Mr WU Chi-wai expressed doubt as "Windows 7" was already an obsolete operating system.

Cost and cash flow

15. Mr Albert CHAN queried about the excessively high amount of expenditure listed in the funding application of the item. Noting that among the various expenditures, the cost of implementation services had amounted to \$12 million, he asked about the details of the expenditure concerned.

16. DD/GLD explained that while the system was meant to handle all major purchases of items in the entire Government, the contractor was tasked to undertake development, testing, data exchange, etc., and to ensure all government departments were able to use the relevant system. The existing funding request was drawn up after making reference to the cost of development in the past. Deputy Secretary for Financial Services and the Treasury (Treasury)³ ("DS(Tsy)³") added that the software of the system was complicated and part of it would need to be developed by the contractor itself. The contractor also had to conduct various security and data privacy assessments to ensure that the newly developed system would meet the requirements of the Administration.

17. Mr Albert CHAN and Mr CHAN Chi-chuen expressed concern about the cash flow of the item. They cited the expenditure of external testing team for 2018-2019 as an example and asked why the expenditure for this year was much higher than that of other years. They also queried the significant amount of recurrent staff cost for 2020-2021. These members asked the Administration to provide a detailed explanation.

18. Mr IP Kwok-him expressed concern about the cash flow of the item for 2019-2020, which was obviously higher than that of other years. He hoped

that the Administration would clearly explain the details of cash flow for system development on a year-on-year basis.

19. With regard to cash flow, DS(Tsy)3 and DD/GLD advised that since the Administration estimated that system development would commence in full gear and come into operation in 2018-2019 and 2019-2020, the cash flow requirement for that year was therefore greater. Upon commissioning of the newly developed systems at the end of 2019, GLD would commence regular maintenance of the systems and the relevant expenditure would be reflected in its recurrent expenditure from 2020-2021 onwards.

20. Mr Alan LEONG enquired about the calculation of the contingency provision.

21. DD/GLD advised that the calculation of the contingency provision was modelled on the standards set by the Government for its general system development projects, which was equivalent to 10% of the total non-recurrent expenditure.

Appointment of contractor

22. Dr KWOK Ka-ki asked whether the Administration would engage the contractor of the existing systems to undertake the development of the new systems.

23. DD/GLD said that the Administration would select the contractor to undertake the development of the new systems by way of open tender.

System developers

24. In response to Dr KWOK Ka-ki's question, DD/GLD said that the expenditure on outsourced staff covered the contract project management team and the external testing team.

25. Mr CHAN Chi-chuen referred to the rumour that it was already predetermined internally that former upper-middle level management personnel of GLD would be appointed as members of the contract project management team.

26. DS(Tsy)3, DD/GLD and Controller (Procurement), Government Logistics Department said that the relevant contract staff should have professional qualifications in information technology and they would be

recruited through the "T-contract" arrangement administered by the OGCIO. Thus, no pre-determination would take place.

Participation of the Innovation and Technology Bureau

27. Mr WU Chi-wai, Dr KWOK Ka-ki and Ms Claudia MO were concerned that various government departments using internal application systems would submit funding applications for system upgrade to FC one after another. They were worried that as different government departments followed different policies, their efforts in system development might give rise to duplication of resources. These members asked the newly established Innovation and Technology Bureau ("ITB") to coordinate the development of internal application systems of various government departments, and formulate integrated strategy to promote the information technology development for the entire Government.

28. Mr WONG Kwok-hing urged the Administration to fully consult ITB on this project.

29. Permanent Secretary for Financial Services and the Treasury (Treasury) and DS(Tsy)3 advised that, generally speaking, the internal application systems of various government departments had a certain lifecycle. Upgrading was necessary if the hardware required for the maintenance of the relevant systems was no longer available in the market. Moreover, in deciding whether it was necessary and how to upgrade their internal application systems, government departments would also take into consideration their latest business needs. For instance, the Government had considered whether the latest cloud technologies could be adopted in the newly developed systems under this project, but opined that it would not be suitable to do so after examining the business needs of the Department. As such, the cloud technologies had not been adopted.

30. The OGCIO under ITB was responsible for overseeing system upgrade of various departments, and providing professional opinions on various processes of design and development to the departments concerned. The Administration would take note of members' views on the above-mentioned work of ITB.

31. Mr LEUNG Kwok-hung queried the establishment of ITB was not conducive to enhancing the effectiveness in the Government's development of its internal application systems. He enquired about the time when GLD had consulted OGCIO on the project.

32. DD/GLD remarked that GLD had consulted OGCIO on the project in mid-2015. GLD had also liaised with OGCIO in January 2016 after securing the support of the Panel on Financial Affairs for the project. Upon obtaining funding approval from FC, GLD would consult OGCIO again on the detailed design of the systems.

Consultation with other departments

33. In reply to Mr LEUNG Kwok-hung's enquiry, DD/GLD advised that GLD had consulted other government departments on the newly developed systems. Mr LEUNG Kwok-hung asked the Administration to provide records of the relevant consultation.

Government's policy on procurement and inventory management

34. In response to the question of Mr YIU Si-wing regarding the role of GLD in the procurement of goods, DD/GLD advised that GLD would provide support to all departments in carrying out procurement procedures in accordance with their respective needs, and would at the same time organize central procurement of general and common items for all government departments.

35. Mr Kenneth LEUNG asked the Administration whether there was a uniform standard with regard to specifications in the procurement of U-Store items. DD/GLD replied that there were two major categories of U-Store items, i.e. emergency items (such as facial masks and protective gear) and general government forms. The Administration would discuss with client departments on the suitable specifications before procuring the above-mentioned items.

36. Mr Kenneth LEUNG and Mr WU Chi-wai expressed concern about storage of U-Store items.

37. DD/GLD remarked that the majority of U-Store items were kept in GLD warehouse located in Chai Wan. Individual departments would keep suitable quantities of items in their own stores. At present, the Administration adopted the Departmental Stores Ledger Posting System ("the System") for managing store items but it was not compulsory for all departments to adopt the System. GLD would deploy staff to inspect the management of store items in departments from time to time.

38. Mr Kenneth LEUNG expressed concern that government departments might split their procurement orders to the effect that the monetary value of each order would be lower than the value required to go through open tender, thus circumventing the open tender process. He asked whether the Administration had exercised regulation on the above-mentioned situation.

39. DD/GLD advised that the Stores and Procurement Regulations explicitly prohibited government departments to deliberately split procurement orders with the purpose of avoiding open tendering exercise. There were past records where individual departments made several procurements of similar items within a short time because the procurements were initiated separately by different internal units of those departments. As such, GLD had reminded the departments concerned of the need to comply with the relevant requirements stipulated in the Stores and Procurement Regulations.

Other views

40. Ms Claudia MO criticized that it was difficult to comprehend the Chinese translation of some jargons in the paper, such as the translation of "workflow engine ("工作流程引擎")". DS(Tsy)3 noted the view of Ms MO.

41. There being no other questions from members, the Chairman put the item to vote. The Chairman declared that the Committee approved the item.

Item No. 3 – FCR (2016-17)10

RECOMMENDATION OF THE ESTABLISHMENT SUBCOMMITTEE MADE ON 20 JANUARY 2016

EC(2015-16)11

HEAD 137 – GOVERNMENT SECRETARIAT: ENVIRONMENT BUREAU

Subhead 000 – Operational expenses

HEAD 92 – DEPARTMENT OF JUSTICE

Subhead 000 – Operational expenses

42. The Chairman advised that the item sought the Committee's approval of the recommendation of the Establishment Subcommittee ("ESC") made at its meeting on 20 January 2016, i.e. recommendation made in EC (2015-16)11 for the retention of one supernumerary Administrative Officer Staff Grade C post in the Environment Bureau and one supernumerary Assistant Principal

Government Counsel post in the Department of Justice for a period of three years to undertake negotiation with the power companies on a new set of the Scheme of Control Agreements ("SCAs"). A member requested for separate voting on the relevant recommendation at the FC meeting.

Scheme of Control Agreements

43. Dr KWOK Ka-ki, Dr Fernando CHEUNG, Dr Kenneth CHAN and Ms Emily LAU expressed grave concern about the effectiveness of the Administration's negotiation with the power companies on the new set of SCAs. They criticized that the Administration was often in a disadvantageous position when negotiations were held between the Administration and the power companies on SCAs, and the two power companies were allowed to increase tariff year after year and reap excessive profits, thus jeopardizing the interests of the public. These members opined that the Administration should strive to enhance the transparency of negotiation and formulate effective negotiation strategies to safeguard public interests as much as possible.

44. In response to members' concern about the effectiveness of the negotiations on SCAs, Deputy Secretary for the Environment ("DSE") said that in the Administration's negotiation with the power companies on the previous set of SCAs, the Administration had already secured better terms, which included successfully reducing the permitted rate of return of the power companies, and setting a higher portion of the net asset value on machinery and electrical equipment to be excluded from the company's average net fixed assets for calculating the return when there was excess generating capacity, so as to prevent the power companies from pushing up profits by commissioning too many generating facilities. In preparation for formulating a new set of SCAs, the Administration had commissioned a consultant to conduct a review of a reasonable permitted rate of return in 2013. The consultant opined that consideration could be given to lowering the permitted rate of return to the range of about 6% to 8%. The Administration had also gauged many views of the public during the public consultation on reviewing the future development of the electricity market. The Administration would take into account those views when negotiating with the power companies. Apart from the permitted rate of return, the Administration would also discuss with the power companies on subjects such as enhancing energy efficiency and conservation as well as the development of renewable energy.

Functions of the proposed posts

45. Given that the Administration had not increased the establishment of professional staff, Dr KWOK Ka-ki expressed concern about whether the Administration could effectively reinforce its negotiation with the power companies on SCAs. He asked the Administration to provide a detailed description of the functions of the proposed posts.

46. DSE advised that the main jobs of the relevant posts in the past two years were to review and consult the public on the future development of the electricity market, and to conduct public consultation exercises on future fuel mix for electricity generation. After gauging the views of the public, the next step forward was to negotiate with the power companies on a new set of SCAs. The negotiation would be undertaken by the holder of the proposed posts, and a team comprised of non-directorate officers from different disciplines would also provide support in this regard. External expert advisers would be engaged to provide input as and when necessary. The Administration considered the proposed manpower adequate to cope with the work.

47. Ms Emily LAU noted that the Administration considered the permitted rate of return could be reduced in tandem with the latest economic situation and after taking into consideration similar investments internationally. She asked the Administration to explain the above-mentioned factor.

48. DSE explained that when reviewing the permitted rate of return, the Administration would take into account changes in market interest rates and the relevant advice about other economic factors as provided by the Government Economist. Similar investments internationally referred to regions with a similar electricity supply condition of Hong Kong (i.e. the electricity market was not completely opened up), including Australia, Macao, and individual states of the United States.

Opening up the electricity market

49. Dr Fernando CHEUNG and Dr Kenneth CHAN urged the Administration to study the opening up of the electricity market, such as developing interconnection of the electricity supply systems of the two local power companies with a view to facilitating competition.

50. DSE remarked that the Administration had conducted related study and found that the capital expenditure involved in a major enhancement of the existing interconnection of electricity supply systems would be extremely high. While this would directly increase the generation cost of the two power

companies and push up tariff, the consumers might not be able to gain immediate benefits.

51. At 4:59 pm, the Chairman declared that the meeting be adjourned.

52. The meeting was adjourned at 4:59 pm.

Legislative Council Secretariat

18 August 2016