

**Response to Public Accounts Committee's (PAC) questions on
Chapter 7 of the Director of Audit's Report No. 66
Dedicated Fund on Branding, Upgrading and Domestic Sales**

This note sets out FSTB's response to two questions raised in the letter dated 12 May 2016 from the Clerk to PAC.

Question (1): According to paragraphs 2.26 and 2.27, FSTB and the Commerce and Economic Development Bureau (CEDB) held a different view as to whether the engagement of the Hong Kong Productivity Council (HKPC) should be considered as partnership or service procurement. In this connection, what factors have been considered by FSTB to determine the nature of engagement, and the weighting of these factors?

2. The Controlling Officer has the authority and responsibility for determining the most appropriate and cost-effective mode (procurement or partnership etc.) of engaging a non-Government partner to provide secretariat support for the Enterprise Support Scheme (ESP) under the dedicated fund on Branding, Upgrading and Domestic sales (BUD fund).

3. FSTB's view aligned with that of CEDB in considering the latter's engagement of HKPC as a partnership instead of procurement. In April 2012, we raised the question with CEDB on the mode of engaging HKPC as the implementation partner of the ESP primarily for the purpose of reminding CEDB to carefully deliberate on adopting either the procurement or partnership mode in selecting an implementation agent. In response to our enquiry, CEDB indicated that their engagement of HKPC as the Secretariat of ESP was not a procurement of service, but a partnership arrangement having regard mainly to the following considerations-

- (a) Taking into account the operational nature of ESP and its target beneficiaries, the expertise required, and cost effectiveness of different delivery modes as well as the experience of Environment Protection Department in engaging HKPC as the implementation partner of the Cleaner Production Partnership Scheme, CEDB considered HKPC the most appropriate

organization for the purpose; and

- (b) Of the total administrative cost required, HKPC agreed to contribute around \$17 million (around 23%) in terms of professional manpower support, venue rentals and other ancillary technical and support services, while the Government would only need to contribute \$56 million (around 77%). This cost-sharing arrangement did not match with the nature of service procurement.

4. With the above explanation, FSTB considered CEDB's decision to adopt the partnership mode in engaging HKPC for implementing the ESP reasonable. We then reminded CEDB to clearly and properly document the considerations underlying this decision for record.

5. The above deliberations are consistent with the relevant guidelines set out in the Financial Circular (FC) No. 2/2015 (which superseded the then FC No. 8/2004) on the management of funding schemes and non-works projects funded by the Government. Apart from the overriding principles for ensuring fiscal prudence, the FC promulgates guidelines on 'who the non-government partner should be and how it should be selected' for observation by the Controlling Officers. They also include the requirement that "where the Controlling Officer is satisfied that the engagement of a non-government partner to administer the project does not constitute procurement of service or good and is not subject to the Store and Procurement Regulations, the relevant considerations and decision should be clearly and properly recorded" (paragraphs 2.1 to 2.3 of Annex B to FC Circular No 2/2015).

Question (2): According to paragraph 2.33, HKPC charged the Government the implementation fee at the more expensive L3 rates instead of L8 rates. Will the Administration inform this Committee whether FSTB and CEDB had unanimously accepted this arrangement?

6. In engaging an implementation agent to take forward an initiative (BUD fund is a case in point), it is the relevant Controlling Officer and/or executing department who is responsible for deliberating and negotiating with the agent on the funding arrangements to the best interest of the Government. It is not necessary or practicable for FSTB to be involved in the details of such negotiations.

7. For this specific case, in processing the funding proposal on the BUD Fund for submission to the Finance Committee of the Legislative Council in 2012, we had reviewed the cost breakdown of the \$56 million to be contributed by the Government and considered it reasonable. According to CEDB, Government's contribution of \$56 million was meant to enable HKPC to recover the full staff costs and overheads (other than the \$17 million contributed by HKPC as a partner in terms of professional manpower support to supervise, monitor and review the work of the secretariat, venue rentals and other ancillary technical and support services). As set out in the concerned paper submitted to the Finance Committee of the Legislative Council (FCR(2012-13)22), the Government's contribution comprised 43% for project monitoring, 30% for programme management, as well as 27% for programme leadership and co-ordination.

Financial Services and the Treasury Bureau
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