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2 January 2020

Clerk to Public Accounts Committee  
Legislative Council Secretariat  
Legislative Council Complex  
1 Legislative Council Road  
Central  
Hong Kong  
(Attn: Mr Anthony Chu)

Dear Mr Chu,

**Public Accounts Committee**

**Director of Audit's Report No. 73**

**Chapter 3: Governance and administrative issues of the Hong Kong  
Productivity Council**

Thank you for your letter of 19 December 2019. I would like to provide the following information as requested by the Committee.

**(III) For the Innovation and Technology Commission**

**Part 2: Corporate Governance and Performance Reporting**

Q21) Please provide the following information.

- (a) Are there any special divisions or manpower in ITB and ITC to assist CIT in monitoring, assessing or reviewing the work of HKPC? Is the staffing arrangement different before the establishment of ITB (i.e. when ITC was still under the Commerce and Economic Development Bureau)?
- (b) In addition to the references in paragraph 2.17 of HKPC's own thematic research and proactive review of future development strategies, is there any record showing that CIT has provided any advice in this aspect since 2009, including through channels other than the Council?

- (c) Has HKPC completed the review and update of the relevant sections of MAA with ITC according to paragraph 2.20(d)? If no, what is the progress of the review? Is there any initial review direction for ITC?

A21(a) According to paragraphs 5.3 and 5.4 of the "Memorandum of Administrative Arrangements on the Administration of the Subvention for the Hong Kong Productivity Council" (MAA), the Commissioner for Innovation and Technology (CIT) is the designated Controlling Officer of the subvention granted by the Government to the Hong Kong Productivity Council (HKPC), and will ensure that the HKPC's activities accord with its objectives and relevant public policies and priorities, are properly and effectively planned, delivered and evaluated and its subvention is properly used and disbursed. According to Section 5 of the Hong Kong Productivity Council Ordinance and paragraph 5.1 of the MAA, the HKPC is autonomous in the management and control of its activities and resources.

The Innovation and Technology Bureau (ITB) was established in November 2015, before and after which the Funding Schemes Division of the Innovation and Technology Commission (ITC) is responsible for assisting the CIT and Deputy Commissioner for Innovation and Technology in monitoring the operation of the HKPC. The team comprises an Assistant Commissioner (the post filled by an Administrative Officer Staff Grade C), a Principal Trade Officer, a Trade Officer and an Executive Officer I. Currently, apart from monitoring the operation of the HKPC, the Assistant Commissioner is also responsible for monitoring the operation of two Research and Development (R&D) Centres funded by the Government (i.e. the Hong Kong Research Institute of Textiles and Apparel and the Automotive Platforms and Application Systems R&D Centre), as well as the administration of 13 funding programmes under the Innovation and Technology Fund (ITF). The Principal Trade Officer, the Trade Officer and the Executive Officer I are also responsible for monitoring the operation of the Automotive Platforms and Application Systems R&D Centre, the operation of a funding programme under the ITF, and the internal administration work of the Funding Schemes Division.

A21(b) Apart from the housekeeping meetings<sup>1</sup> and day-to-day communication between the HKPC and the ITC, the ITB and the ITC have also provided views on the HKPC's development strategies through participation in the Council meetings of the HKPC, for example –

(1) at the Council meeting held in August 2010, the ITC introduced the work of the Hong Kong Council for Testing and Certification

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<sup>1</sup> Housekeeping meetings are held thrice per year, during which the Executive Director of the HKPC will highlight the major discussion items of the next round of Council and Standing Committee meetings to the CIT.

(HKCTC), and suggested possible areas for collaboration between the HKPC and the HKCTC;

- (2) at the Council meeting held in November 2011, the ITC suggested that the HKPC should make good use of the newly introduced \$1 billion funding scheme set up by the Government to help enterprises develop brands, upgrade and transform their operations, as well as exploring the Mainland market;
- (3) at the Council meeting held in March 2012, the ITC encouraged the HKPC to strengthen collaboration with trade associations to conduct more industry-focused R&D work;
- (4) the HKPC carried out a study entitled "Hong Kong Industry Development Strategy - Leveraging Our Strength of Trustworthiness" in 2013 to provide recommendations on the development of new high value-adding industry sectors so as to facilitate Hong Kong's diversified economic development. The ITC had offered views to the HKPC in the compilation of the study report;
- (5) in February 2016, the HKPC held a special Council meeting to discuss its future strategy and positioning. At the meeting, the ITB and the ITC provided views on the HKPC's future direction for development, e.g. the HKPC should support the Government's initiatives in re-industrialisation and developing Hong Kong into a smart city, as well as strengthen efforts to nurture innovation and technology talents, and support start-ups. In addition, the HKPC should also step up collaboration with R&D Centres and other research institutions to create synergy; and
- (6) at the Council meeting held in July 2017, the ITB suggested the HKPC to make reference to the Smart City Blueprint for Hong Kong to be promulgated by the Government and implement complementary initiatives, and enhance collaboration with other organisations to achieve optimal results.

A21(c) The ITC and the HKPC agree with the recommendation of the Audit Commission and will update the service focus stated in the MAA to better align with the HKPC's latest strategic plans and service focus. The HKPC and the ITC have already set up a timetable for updating the service focus in the MAA. The HKPC will review the latest Three-year Strategic Plan (2020-21 to 2022-23) endorsed by the Council, the strategic themes under the Three-year Strategic Plan, the 2020-21 Programme and Estimates, as well as the views provided by the Audit Commission and the Public Accounts Committee during the audit exercise and public hearings. The HKPC will submit the updated provisions to the ITC by the end of January 2020 for consideration. The ITC will review the provisions and provide feedback, with a view to enabling the HKPC to submit the updated

provisions to the Council for review at its meeting in March 2020.

Q22) According to paragraph 2.23, HKPC failed to meet one or more performance targets every year and some performance targets were not achieved for three years or more from 2014-2015 to 2018-2019. According to paragraph 2.24, if HKPC fails to achieve agreed performance targets, HKPC is required by MAA to provide explanations for such failures to the satisfaction of CIT. However, for the targets on two KPIs on "Number of consultancy projects accepted" and "Income from manufacturing support projects", there was no documentary evidence showing that HKPC had provided explanations to CIT for failing to meet these two performance targets in 2017-2018.

According to 2.29(a), HKPC will set up, in consultation with the ITC, a more formal mechanism for submitting the reasons for shortfalls against KPI targets.

- (a) Why did ITB or ITC not follow up with HKPC on its failure to provide the explanations for meeting these two performance targets in 2017-2018 according to MAA?
- (b) Has the formal mechanism been set up between HKPC and ITC? What is the progress?

A22(a) According to paragraph 2.24 of Chapter 3 of the Director of Audit's Report, there was no documentary evidence showing that the HKPC had provided explanations to the CIT for failing to meet the targets on two Key Performance Indicators (KPIs) on "Number of consultancy projects accepted" and "Income from manufacturing support projects" in 2017-18. In fact, at the housekeeping meeting held on 14 June 2018, the Executive Director of the HKPC had already reported to the then CIT on those KPIs the targets of which the HKPC had failed to meet in 2017-18 (the relevant meeting material is at **Annex 1**). The Executive Director indicated that same as 2016-17, although the number of consultancy projects failed to reach the target in 2017-18, the income from consultancy projects did exceed the target because some consultancy projects were of a larger scale.

In addition, due to increasing demand for integrated solutions by clients, many manufacturing support services had been included in consultancy projects, leading to the failure to meet the target for "Income from manufacturing support projects" and the situation persisted in 2017-18. The then CIT accepted the Executive Director's explanations.

Taking into account the aforesaid situation, the then CIT introduced a new indicator in her Controlling Officer's Report for 2018-19 on "income from integrated solutions", which includes the income from

consultancy/technical assistance and the income from manufacturing support/process control. The relevant figures were previously reported under separate indicators. In line with market demand for integrated solutions, the revised indicator could better reflect the overall performance of the HKPC.

- A22(b) In response to the recommendation by the Audit Commission, the HKPC and the ITC agree to establish a more formal mechanism for the HKPC to submit reasons for shortfalls against the targets for the relevant KPIs. Specifically, from 2020 onwards, the HKPC intends to submit a formal written report to the ITC in June every year, in which the HKPC will set out in detail its performance on each KPI in the preceding financial year, and provide explanations and planned follow-up actions in respect of those KPIs for which it failed to meet the targets. The CIT will review the contents of the report and respond in writing. The above arrangement will be inserted in the MAA.

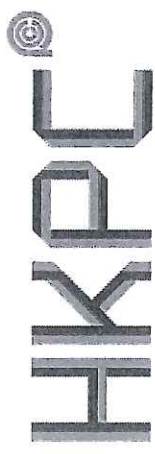
Yours sincerely,

A handwritten signature in black ink, appearing to be 'Ms Rebecca Pun', written over a horizontal line.

(Ms Rebecca Pun)

Commissioner for Innovation and Technology

- c.c. Secretary for Innovation and Technology  
Secretary for Financial Services and the Treasury  
Chairman, Hong Kong Productivity Council  
Executive Director, Hong Kong Productivity Council  
Director of Audit



All-round Productivity Partner  
全方位企業伙伴



## 2017/18 KPIs

- In 2017/18, 20 out of 23 KPIs exceeded targets.
- All core KPIs exceeded targets.



## 2017/18 KPIs

- Overall financial targets exceeded

KPI	2017/18 Performance Target	2017/18 Actual	% Met
Total external income	\$449.81 M	\$471.70M	105%
Overall I/E ratio	69.1%	76.40%	111%
Overall income per employee	\$0.68M	\$0.82M	120%



# 2017/18 KPIs

- 3 KPIs with variance from targets:

KPI	2017/18 Performance Target	2017/18 Actual	% Met	Remark
Number of consultancy projects accepted	968	699	72%	despite the shortfall, income per consultancy project in progress exceeds target by 7%, indicating larger project size
Income from training courses	\$14.0 M	\$8.0M	57%	the shortfall of these 2 KPIs (\$13M) is
Income from manufacturing support projects	\$33.7M	\$26.7M	79%	compensated by income from consultancy projects which exceeded target by \$16M

END