Chapter 2

Management practices of the Vocational Training Council

The Committee noted Audit's review on the management practices of the Vocational Training Council (VTC) in the following areas:

- finalisation of a framework agreement between the Administration and the VTC and setting of performance indicators;

- administration of remuneration and fringe benefits;

- procurement of goods and services; and

- building and use of senior staff quarters.

Framework agreement between the Administration and the VTC

2. Noting that the Audit Report had revealed a number of inadequacies in the management of the VTC, the Committee enquired into the causes of the problems.

3. **Mr Joseph WONG Wing-ping, Secretary for Education and Manpower**, said that:

- the Education and Manpower Bureau (EMB), being the bureau responsible for the subvention to the VTC, was very concerned about the management and administrative structure of the VTC; and

- in 1996, the Administration commissioned a management consultant to review the administrative structure and management of the VTC. A number of the recommendations made by the consultant had already been implemented. The EMB would follow up the implementation of the recommendations by the VTC.

4. **Mr YEUNG Kai-yin, Chairman, VTC** stated that:

- the consultant had criticised the VTC for not performing well and being out of touch with the pulse of the manpower market and the economy. Having considered the consultancy report and the Audit report, he believed that the crux of the problem was the mode of funding for the VTC;

- at present, the Government's subvention to the VTC was on a deficiency grant basis. Under this arrangement, the salary and fringe benefits of VTC's staff could not be superior to those provided by the Government to comparable grades in the civil service. The Government had the ultimate authority for approving the revenue and expenditure of the Council. If the subvention for a year was not fully spent, the amount of subvention for the following year would be adjusted. The savings would not be kept by the VTC. In the circumstances, the VTC might have the mentality that no matter what they approved, the EMB would make the decision and the Finance Bureau (FB) would be the funding body. Hence, the Council might have a weaker sense of responsibility;

- the deficiency grant approach was more suitable for educational institutions which provided basic education because such service was so important that the Government would want to exercise a high degree of control. This is the mode of funding for all subsidised primary and secondary schools;

- on the other hand, all tertiary institutions were funded through a discretionary grant. Under this arrangement, the annual subvention provided by the Government to the subvented organisations was the ceiling under which the organisations had the flexibility to deploy its financial resources. As the councils of these institutions had greater control over the allocation of resources, they had a greater sense of responsibility; and

- since the VTC was already a mature organisation, he considered that the subvention mode should be changed from the deficiency grant to the discretionary grant.

5. The Committee understood from paragraph 5.8 of the Audit Report that back in May 1993, the Secretary for Education and Manpower had prepared a draft framework agreement for the VTC's consideration. The agreement aimed to amplify the statutory provisions of the VTC Ordinance. Paragraph 5.10 revealed that in August 1993, the VTC returned a revised draft framework agreement to the Secretary. However, the framework agreement had still not been finalised. Against this background, the Committee enquired:

- what the comments given by the VTC on the draft framework agreement were;

- why it had taken so long to finalise the framework agreement; and

- whether the inadequacies in the management of the VTC could have been prevented had the framework been concluded.

6. The **Chairman, VTC** said that since the establishment of the VTC, there was already a Memorandum of Administrative Arrangements (MAA), which was in an abridged format, between the Government and the VTC. The MAA set out the arrangements for the VTC's transition from a Government department to a statutory body.

7. The **Secretary for Education and Manpower** said that:

- even without the framework agreement or the MAA, the Administration still had to monitor the use of resources and the performance of the VTC. Being a statutory body, the VTC's structure, functions and roles were stipulated in the VTC Ordinance. The Council, by way of its budget, had to inform the Administration of its business plan for the coming year and how resources would be allocated. Its budget was also subject to the vetting of the Legislative Council. Should there be any problem, the EMB would report it to the Legislative Council Panel on Manpower. Nevertheless, a MAA was still needed as it would set out the roles and responsibilities of the Administration and the VTC in greater detail;

- the framework agreement drafted in 1993 was rather general. It covered the Government's policy, the terms of reference of the VTC and the conditions of service for its staff, etc. After assuming office in August 1995 as the Secretary for Education and Manpower, he had examined the issue and came to the view that, rather than signing the framework agreement immediately, a comprehensive review on the organisation of the VTC should be conducted first. Hence, a consultancy study was commissioned; and

- the Administration was discussing with the VTC a new MAA. He understood that the VTC wished to have more flexibility in allocating its resources. If a discretionary grant approach was adopted, the EMB would like to have a basis for assessing the performance of the VTC. The new MAA or the framework agreement would thus cover the mode of funding and the VTC's performance indicators. With the indicators, it would be easier for the Legislative Council and the Administration to objectively assess the input and output of the VTC.

8. Regarding the VTC's comments on the draft framework agreement in 1993 and how the EMB dealt with the agreement after receiving the comments, the **Secretary for Education and Manpower**, in his letter of 21 December 1999 in ***Appendix 7***, informed the Committee that:

- on 6 May 1993, the then Secretary for Education and Manpower sent a draft framework agreement to the then VTC Chairman. On 24 August 1993, the then Executive Director, VTC reverted with a revised draft which was considerably shorter. In brief, the VTC commented that it was not necessary to include in the agreement matters which had already been laid down in the VTC Ordinance and other matters where there was no room for disagreement;

- the then Secretary for Education and Manpower held two meetings with the then VTC Chairman in November 1993 and August 1994. One of the issues covered was the draft framework agreement. It was emphasized that the purpose of the document was to enable the parties concerned and other outside readers to understand clearly the duties of the VTC, and their accountability to the public. The document should therefore be comprehensive and informative. After discussion, it was agreed that the original draft by the EMB should be used as the basis for technical refinements to be sorted out at the working level between the EMB and the VTC; and

- on 31 August 1994, the VTC Chairman sent a letter to the Secretary for Education and Manpower confirming the understanding reached at the earlier meeting in August 1994. The suggested approach was endorsed by the Council at its meeting on 8 September 1994. It was eventually decided in September 1995 that the subject should be put on hold until after the VTC consultancy review.

9. As for the actions taken by the Administration after the consultancy review, the **Secretary for Education and Manpower**, in his letter of 8 January 2000 in ***Appendix 8***, stated that:

- the consultancy review was completed in August 1996. The Administration subsequently sought comments from a number of concerned organisations and interested parties. The Panel on Manpower was briefed on the results of the consultation exercise and the Administration's initial assessment of the recommendations in December 1996 and June 1997 respectively. A Legislative Council Brief was issued in June 1997 to inform Members of the Executive Council's decision that the VTC should proceed along the broad lines of the major review recommendations;

- in early 1998, a discussion was held with the VTC on various subjects including its mode of funding. In March 1998, a letter was issued to the VTC Chairman setting out in general terms the Administration's views on the role and future direction of the VTC. A meeting was held with the Chairman and senior management of the VTC in late March 1998 to discuss various subjects including the framework agreement. In May 1998, a letter was sent to the VTC Chairman outlining the relationship between the Government and the VTC and the Administration's expectation of the VTC; and

- in the latter part of 1998 and the first quarter of 1999, discussions with the VTC were focused on a possible new funding mechanism. The issue of the framework agreement was discussed at a meeting with the VTC and the FB in July 1999. A further meeting was held in August 1999 to discuss a draft prepared by the VTC. The EMB, in consultation with the FB, was now working on a revised draft. The agreement would cover, among other things, the financial arrangement and the aims of and services provided by the VTC.

10. On the contents of the revised framework agreement or the revised MAA, the **Secretary for Education and Manpower** said that the Administration would set performance indicators for the VTC's various courses and programmes. For example, indicators would be set for the number of graduates, the number of graduates who could find a job and those who could find a job in his own profession. If the employment rate in a profession was below the level set by the indicator, the VTC would be requested to conduct a review.

11. Regarding the progress in devising the revised MAA, **Mrs Carrie LAM CHENG Yuet-ngor, Deputy Secretary for the Treasury**, said that:

- the FB, in collaboration with the EMB, was actively working on the issue. The FB considered that it was now high time to revise the MAA because since the launching of the Enhanced Productivity Programme in 1998, many subvented organisations had requested greater flexibility in the use of resources so as to enhance productivity; and

- it was agreed that priority should be given to finalising the revised MAA for the VTC. The MAA would set out clearly the relationship between VTC and the Government, the performance indicators in respect of subvented services and the subvention arrangements. Once the performance indicators had been set, the MAA could be finalised and signed.

12. In this connection, **Professor LEE Ngok, Executive Director, VTC**, also informed the Committee that:

- since he assumed the office of Executive Director, VTC in June 1997, he had been pursuing the consultant's recommendations. The consultant had urged the drawing up of a framework agreement between the VTC and the Government; and

- for more than six months, the Chairman, VTC and he himself had been involved in discussions with the EMB and the FB about the new MAA. The discussions had been going on very smoothly. One of the most important issues being discussed was whether the mode of funding for the VTC should be changed from a deficiency grant to a discretionary grant. He was confident that a formal and detailed MAA would be concluded in the coming couple of months.

13. Responding to the Committee's question, the **Secretary for Education and Manpower** confirmed that he aimed to finalise the MAA towards the end of April 2000.

14. The Committee noted that on the one hand the Administration considered it necessary to have a more detailed MAA to ensure the financial control of the VTC, on the other hand the Committee understood that the VTC was a non-government organisation which enjoyed a certain degree of flexibility and discretionary power. It was not required to adhere to government rules and regulations. In the absence of a MAA or an agreement with the VTC on financial arrangements, the Committee queried how the Administration could make sure that the VTC would comply with the Government's subvention rules.

15. In response, the **Deputy Secretary for the Treasury** said that:

- the VTC was bound by the VTC Ordinance. Moreover, the Government's financial support for the VTC was based on an Executive Council memorandum. There was also a document setting out the financial arrangements for the VTC; and

- similar to other subvented organisations, the VTC was covered and regulated by a general subvention policy of the Government. For instance, under the policy, the terms of service for subvented posts might not be superior to those offered by the Government to comparable grades in the civil service. Savings achieved in a year would be netted off in the following year's subvention. There were circumstances under which the VTC should seek approval from the Administration before it made the decisions. Hence, in accordance with the prevailing subvention policy, the FB could exercise some control over the VTC.

16. The Committee considered that without a detailed MAA, the situation was far from satisfactory. While the VTC's vote controller was not a civil servant, he had to understand all the Government's subvention rules before he could comply with the subvention policy. The Committee asked whether:

- the lack of a detailed MAA had given rise to the inadequacies identified in the Audit Report; and

- consideration would be given to setting out clearly in the revised MAA the matters which were subject to the approval of the Government.

17. The **Deputy Secretary for the Treasury** said that:

- even if there was a revised MAA, it would not cover every detail because that would not be in line with the Government's intention to give the VTC autonomy and flexibility. A lot of subvented organisations had received subventions from the Government in the past decade. The Administration had all along relied on a general subvention policy or the historical relationship between the Government and the organisations, rather than contractual documents, for regulating the organisations;

- the VTC, being a statutory body, had a governing council. The Council had to put in place proper arrangements to make sure that it was transparent and accountable in the use of public funds;

- as the VTC was funded by a deficiency grant which was the most vigorous mode of regulation for subvented organisations, any action by the VTC which might have an implicit or explicit financial implication would require the approval of the controlling officer who, in turn, had to seek approval from the FB. The criterion was whether public expenditure would be involved. Under this principle, some issues revealed in the Audit Report, such as the encashment of vacation leave and the increased project estimate for the building of the senior staff quarters, should have required the FB's prior approval in the first place. The deficiency grant arrangements were already adequate for regulating the VTC's activities; and

- the subvention policy had been evolving all the time. The Administration agreed that improvements could be made to the policy and the Government could set out clearer guidelines for subvented organisations. Actually, more than 180 non-government social service organisations were being consulted on the subvention policy.

18. The **Secretary for Education and Manpower** agreed with the views of the Deputy Secretary for the Treasury. He said that:

- in the new framework agreement, the EMB and the FB were not going to regulate each and every detail of the VTC because that would violate the purpose of establishing the VTC. The VTC was established as a statutory body because the Government wished to give it some degree of flexibility. The Administration did not expect the VTC to follow all the practices of the Government; and

- while the Government wanted to allow flexibility, it also wanted to ensure that public money was spent in a worthwhile and accountable manner. Hence, the general financial arrangements of the VTC should not be too out of line with government practice. However, it did not mean that all details had to be rigidly controlled by the Government.

19. The Committee asked about the yardstick used by Audit in examining the management practices of the VTC and whether Audit had taken into account the fact that the VTC was given some flexibility and it was not required to follow government rules and regulations. In response, **Mr Dominic CHAN Yin-tat, Director of Audit**, said that Audit did not criticise that the VTC had breached government rules. Nor did Audit expect the VTC to adhere to all government rules. Audit had only recommended that the VTC should follow best practices which, in terms of value for money studies, meant obtaining efficiency, effectiveness and economy. These were in fact international practices. Under these principles, for instance, tendering exercises should be open and competitive.

Administration of remuneration and fringe benefits

<u>All-in pay package</u>

20. According to paragraphs 2.36 and 2.37 of the Audit Report, in October 1998 the VTC recruited a senior staff member (i.e. the Director of Marketing and Public Relations) by offering an all-in pay package of $145,000 a month, which was made up of a monthly

basic salary of $92,650 (equivalent to an officer at D1 of the Directorate Pay Scale of the civil service) and a monthly cash allowance in lieu of contract gratuity, housing benefits, medical, dental and hospitalisation benefits, education allowance for children and leave passage. This was not the normal remuneration arrangement for VTC staff.

21. Audit commented in paragraph 2.38 that the all-in pay package was inappropriate because:

- despite the fact that there were vacant staff quarters, the senior staff member concerned was not required to live in the quarters. Instead, the housing benefits were encashed and paid as a monthly allowance to the staff member; and

- the payment of contract gratuity in the form of a monthly cash allowance breached the principle that contract gratuity was payable only upon the satisfactory completion of a contract.

22. The Committee noted from paragraph 2.40 of the Audit Report that the Executive Director, VTC had said that there were difficulties in recruiting a person of the right calibre to fill the position and therefore an all-in pay package was offered. Noting that the VTC had not conducted a recruitment exercise for the post offering the usual terms, the Committee asked how the Executive Director had arrived at the conclusion that there would be recruiting difficulties, particularly at the time when there was an economic downturn.

23. In response, the **Executive Director, VTC** said that the 1996 consultancy had commented that enhancement of the corporate image of the VTC should be given prior consideration if enrolment and placement of students and trainees were to improve. Some head-hunting companies had been contacted and it was suggested that in order to attract candidates of the right calibre, an all-in pay package would be more desirable. Hence, a proposal to recruit a Director of Marketing and Public Relations on the basis of an all-in pay package was put up to the Council for approval. After obtaining the Council's approval, an open recruitment exercise was conducted.

24. Upon the Committee's request, the **Executive Director, VTC** provided, in his letter of 20 December 1999 in ***Appendix 9,*** the relevant VTC papers and minutes of the VTC meeting approving the offer of an all-in pay package for the appointment of the Director of Marketing and Public Relations. In the letter, the **Executive Director, VTC** informed the Committee that:

- it was stated in Paper VTC 35/98 that the post “may prove attractive to high-calibre candidates with a proven record and relevant credentials” if an appropriate package was offered; and

- he explained at the time that the above statement reflected the advice he had received from recruitment consultants and others experienced in the field about recruiting such persons. As a result, the VTC approved the all-in pay package in June 1998. The Council would review the all-in pay package when the contract for the staff member concerned was due for renewal.

25. At the Committee’s invitation, the **Director of Audit**, in his letter of 7 January 2000 in ***Appendix 10***, commented that:

- Audit could not find evidence to support the assumption that there would be difficulties in recruiting a person of the right calibre for the post if the usual terms of remuneration package were offered; and

- in fact, a total of 92 candidates applied for the post in the recruitment exercise offering the all-in pay package. Five candidates were short-listed for the interviews. The response to the recruitment exercise indicated that the competition for the post was keen.

26. The Committee noted that it was stated in Paper VTC 35/98 that “It is felt however that the post ranked at A1 (actual annual salary $1.11 million) may not attract candidates of the right calibre.” The Committee were concerned whether the Executive Director, VTC had handled the issue in an objective and fair manner and therefore asked:

- for the details of the consultation which gave the Executive Director the feeling that the normal conditions of service might not be attractive enough; and

- whether the Executive Director agreed that there was a waste of resources by leaving the VTC’s staff quarters vacant on the one hand and not requiring the senior staff member concerned to live in the quarters on the other hand.

27. The **Executive Director, VTC** responded that:

- apart from his personal views, he had collected information from other parties. He had consulted some head hunting companies informally, but he could not disclose the names of the companies. He had also sought advice from people in the public relations field and had consulted the marketing consultant commissioned by the VTC for enhancing the VTC's overall public relations machinery; and

- in the process of selecting the marketing consultant, parties concerned were invited to make presentations. At the time he took the opportunity to ask them what kind of pay package should be offered to attract suitable candidates for the post of Director of Marketing and Public Relations.

28. Referring to the fact that there were 92 applicants for the recruitment exercise offering the all-in pay package, the Committee asked the Executive Director whether, with hindsight, he agreed that he had been over-pessimistic and whether he would have come to the same conclusion. In response, the **Executive Director, VTC** said that he accepted the Committee's criticism that he had been subjective and with hindsight, he should have re-considered the offer of an all-in pay package, particularly after receiving 92 applications for the post.

29. In response to the Committee's question on how the management of the VTC had handled the matter, **Mrs Amy LO, Finance Officer, VTC** said that:

- the remuneration package that should be offered to the post of Director of Marketing and Public Relations had been discussed several times at the senior management meeting of the VTC. Although there were opposing opinions, it was finally agreed that an all-in pay package should be offered. The proposal was then put up to the Council for consideration; and

- regarding the issue of the availability of vacant quarters, providing an all-in pay package to the staff member concerned was more economical if compared to the cost of the salary package for the officer under normal conditions of service.

30. In the light of the Finance Officer's remark, the Committee asked whether the VTC would consider offering all-in pay packages to all its staff members if such arrangements were indeed more economical and attractive. The **Executive Director, VTC** replied that he had never considered doing so because the VTC still had vacant quarters and all-in pay packages should be an exception rather than a norm. Moreover, the remuneration structure of the VTC was largely based on that of the civil service.

31. The Committee enquired whether the VTC should have consulted the Administration before deciding to recruit a staff member on the basis of an all-in pay package and whether it was desirable for the FB to be represented on the Council. The **Deputy Secretary for the Treasury** commented that:

- according to the usual practice and the subvention policy, the Administration should have been informed of the matter. This would enable the Administration to have the opportunity to comment whether agreement from the Administration would be required. Normally, staff of subvented organisations would not enjoy a higher pay package than civil servants. Although subvented organisations were given flexibility, the Administration should still be allowed a chance to comment on exceptional arrangements and to consider whether discretion should be exercised;

- the FB was the ultimate authority to explain and interpret the subvention policy. The Bureau also had to make sure that subvented organisations dealt with similar matters in a consistent way. However, it would not be practicable for the FB to be represented on the councils of all subvented organisations; and

- it was understandable that sometimes government officials sitting on the councils of subvented organisations might not have full knowledge of the subvention rules. Hence, to err on the safe side, when they spotted any problems they should refer the case to the FB or request the organisation to seek formal approval from the Administration.

32. Noting that there were Government officials including the representative of the EMB sitting on the VTC, the Committee queried why they had not reminded the Council to refer the proposal of offering an all-in pay package to the Administration for consideration. The Committee also asked about the officials' role and functions and whether they had monitored the VTC effectively.

33. The **Secretary for Education and Manpower** said that:

- he did not object to the view that the VTC should have consulted the FB before approving the all-in pay package. Nevertheless, he appreciated that under certain circumstances, statutory bodies like the VTC might, subject to the decision of the Council, want to change the conditions and terms of service for their staff, such as by offering an all-in pay package. If the organisation considered that it was the best way to gain flexibility so as to attract staff of the right calibre, as a matter of principle, he would not object to such an arrangement. The overall requirement was that the terms and conditions of subvented posts should not exceed those of the civil service. Subvented organisations must be given flexibility for the conduct of their business. Otherwise, they should all have been absorbed back into the Government;

- he understood that when a subvented organisation sought approval from the FB on some special arrangements, the FB would consult the respective policy bureau for its views. If the VTC had sought approval from the FB for the present case, he would have commented that under some circumstances the proposal might be appropriate; and

- the representative of the EMB sitting on the VTC would explain Government policies and arrangements to the Council. However, the representative was not superior to other members of the Council and did not have the authority to veto the Council's decisions. The Council was the ultimate power organ. The Council was presented with relevant information in the Council papers and if the members believed that the proposal was the best arrangement for the VTC, the EMB representative would not object to the proposal. He would not find it unacceptable if the representative had not objected to the arrangement.

34. The **Chairman, VTC** said that:

- he understood that one of the main principles under the subvention policy was that the total benefits available to the staff of subvented organisations might not exceed those that would be made available to civil servants of comparable grades. This did not mean that an organisation could not change its remuneration structure; and

- he agreed that in the case of the all-in pay package, the VTC had departed from the arrangements of the deficiency grant. Under the arrangements of the deficiency grant, every case which had financial implication should be approved by the FB. Although the VTC had given its consent to the all-in pay package, advice should also be sought from the Administration. He was confident that the Administration would give the approval if it had been consulted.

35. The **Deputy Secretary for the Treasury** added that:

- as the VTC was subject to the Government's control under the deficiency grant, any proposal that had possible financial implication would need the FB's advice and consent. The FB would then consult the relevant bureau; and

- while the FB was the bureau with the ultimate authority for approving the offer of an all-in pay package, it did not mean that the FB would have definitely opposed the proposal. It acknowledged that many subvented bodies were offering all-in pay packages nowadays. Hence, the present problem was just a matter of procedure.

36. On the role of the Government officials appointed to the VTC and the working relationship between the VTC and the Government, the **Secretary for Education and Manpower** informed the Committee in his letter of 21 December 1999 in ***Appendix 7*** that:

- under the VTC Ordinance, the VTC was required to submit to the Chief Executive for approval each year a programme of its proposed activities and estimates of its income and expenditure for the following financial year. The power to approve the programme of activities and the draft estimates had been delegated to the Secretary for Education and Manpower. The VTC was also required to submit to the Chief Executive an annual report of its activities after each financial year. The report would subsequently be tabled at the Legislative Council;

- the VTC Ordinance stipulated that the Council should consist of up to 23 members with a maximum of four public officers. All members were to be appointed by the Chief Executive. Under section 9 of the Ordinance, the Council might appoint an Executive Director to be the chief executive of the Council. His duty was to ensure proper and efficient functioning and daily operation of the VTC;

- the four public officers appointed to the VTC had the same status as other non-public officer members. Their main role was to provide input from the Government's perspective, explain Government policies and ensure that the activities undertaken by the VTC and known to the Council complied with the prevailing Government policies and procedures. They also helped to bring to the attention of the relevant Government bureaux and departments at an early stage any important matters requiring further consideration and approval by the Government However, it was not the role of the public officer members to oversee or manage the day-to-day operation of the VTC, which was an autonomous statutory body; and

- on important matters involving Government policies or having financial implications on the Government, the VTC would need to seek formal approval from the Government, after any discussion by the Council.

Staff Loan Scheme

37. Paragraph 2.17 of the Audit Report revealed that starting from March 1999, VTC staff were no longer required to state in their loan applications the purposes of the loans under the Staff Loan Scheme (SLS). The VTC would routinely approve the loan applications. The Committee asked about:

- the reasons for such an arrangement; and

- the VTC's view on Audit's comment that the SLS might not be in the staff's interest as a significant portion of the accumulated provident fund originally provided for retirement would have to be used to repay the outstanding loan principal.

38. The **Executive Director, VTC** responded that the requirement to state the purposes of the loans on the application forms was removed by the administration staff without his knowledge because they thought that it was only a minor amendment to the application form.

39. The **Chairman, VTC** said that:

- no public money was involved in the SLS as the loan was provided by a bank with the VTC acting as the guarantor. The VTC only needed to confirm that there was a certain amount of money in the applicant's accounts under the VTC's provident fund scheme to serve as the collateral;

- as the bank was the lender, it was up to the bank to decide whether the applicants should be required to state the purposes of the loans. The VTC should not take over the function of the bank to assess whether the loan applications should be approved; and

- the VTC had accepted Audit's comment that it was not desirable to allow staff to repay only monthly interest and not the principal because by doing so, by the time a staff member retired, a large portion of his provident fund would be deducted for repaying the outstanding principal. Hence, a review would be conducted on the SLS.

40. In his letter of 7 January 2000 in ***Appendix 10***, the **Director of Audit** commented that:

- while the SLS itself did not involve public funds, the Scheme was nevertheless administered by VTC staff who were remunerated by public funds; and

- the VTC should practise prudent personal financial management so as to safeguard the retirement benefits of the staff.

<u>Encashment of vacation leave</u>

41. The Committee noted that under Part VIIIA of the Employment Ordinance, staff members of the VTC could request encashment of their annual leave which had not been taken. The Committee also noted that Audit commented in paragraph 2.33 of the Audit Report that the implementation of the encashment of vacation leave scheme had breached the Government's subvention principle that the terms and conditions of service of their staff should not be superior to those provided by the Government to comparable grades in the civil service. The Committee asked whether, under the circumstances, it was possible for the VTC to adhere strictly to the subvention principle while complying with the Employment Ordinance.

42. The **Secretary for Education and Manpower**, in his letter of 7 March 2000 in ***Appendix 11*** said that:

- the Department of Justice had advised that the provisions in Part VIIIA of the Employment Ordinance were not applicable to the leave arrangement which exceeded the statutory minimum. Under the leave encashment scheme, VTC's non-teaching staff were given an option to encash 30 days (out of a total of 90 days) of their vacation entitlement in a two-year tour of service. The 30 days under the scheme fell within that part of the benefits which exceeded the statutory minimum and were therefore governed by the contract between the VTC and the employees, not by the Employment Ordinance. Any variations to the terms of the contract were subject to mutual consent; and

- actually, there were other options available to the VTC apart from the leave encashment scheme, i.e. acting appointment by other staff and employing additional staff as leave reserve. In the end, the then VTC management opted for the leave encashment scheme after considering the financial implications and impact on operational efficiency of the other two options.

Contract gratuity

43. According to paragraph 2.6 of the Audit Report, since May 1995, six out of the seven tertiary institutions in Hong Kong had already reduced the contract gratuity rate for their staff from 25% to 15%. However, it was not until March 1999 that the VTC decided that the rate for its staff would be reduced from 25% to 15% with effect from July 1999. The reduction was made as a cost saving measure required by the Government's Enhanced Productivity Programme. In this connection, the Committee asked why the VTC had not reduced the rate at an earlier date.

44. The **Chairman, VTC** said that:

- the circumstances facing the tertiary institutions and the VTC were different. By 1995, the tertiary institutions had stopped expansion. In that year, the University Grants Committee asked the institutions to reduce the cost. Hence, the institutions reduced their gratuity rate to save cost; and

- the VTC's activities were still expanding in 1995 as it had to take over the sub-degree courses from the then City Polytechnic and the then Hong Kong Polytechnic. Therefore, the VTC considered that it was necessary to retain the 25% gratuity rate in order to keep its remuneration packages competitive and to attract staff of appropriate calibre.

45. The **Executive Director, VTC,** in his letter of 20 December 1999 in ***Appendix 9***, added that:

- as the VTC was subvented through a deficiency grant, its annual estimates of expenditure and income must have explicit approval from the Government. Consequently, the terms and conditions of service of the VTC (which could equate with, but not be better than those of civil servants) were approved by the Government. As a result, the VTC had little room for manoeuvre on rates such as the level of gratuity which followed those of the civil service;

- in order to produce savings to meet the demand for new and additional services required by the public, the VTC decided of its own volition in March 1999 to reduce the contract gratuity rate to 15%. The revised rate was applicable to both new recruits and existing staff who were on gratuity-bearing terms. It was understood that existing civil servants and employees of subvented organisations who were on gratuity-earning terms of service might continue to receive contract gratuity at the rate of 25% on contract renewal; and

- the VTC considered that it had taken prompt action to review its conditions of service and there had been no delay in implementing a change in contract gratuity, which it did two months in advance of the Government.

46. The **Director of Audit**, in his letter of 7 January 2000 in ***Appendix 10***, commented that:

- the VTC had not tested the market by offering the 15% gratuity rate, even at a time when there was an economic downturn in early 1998. There was no evidence to support that by offering the 15% gratuity rate, the VTC would not have been able to attract staff of good calibre;

- Audit did not agree that the VTC had little room for manoeuvre on rates such as the level of gratuity. As the terms and conditions of service of the VTC were required to be no better than those of civil servants, it followed that the VTC could offer to their staff less favourable terms than the Government's. In fact, as informed by the VTC, the VTC had decided of its own volition in March 1999 to reduce the contract gratuity rate to 15%; and

- Audit maintained the view that the VTC could have taken the initiative of deciding earlier to reduce the contract gratuity rate.

Procurement of goods and services

Financial control on procurement of goods and services

47. The Committee noted that the VTC had made its Financial Rules which did allow exceptions to be made, and the Council had the authority to approve exceptional cases. However, the Financial Rules did not specify under what circumstances the VTC had to seek approval from the Government. Sometimes, even the controlling officer and public officers did not know when the FB should be consulted. As a result, omissions might occur. The Committee therefore asked whether the FB would review the VTC's Financial Rules to identify any deficiencies and to ensure that they were in line with best practices.

48. The **Deputy Secretary for the Treasury** agreed with the suggestion. She said that as the FB was the policy bureau responsible for the Government's tendering matters, she would be happy to provide professional advice when the VTC reviewed its tendering procedures and rules.

49. As to whether there were deficiencies in the VTC's Financial Rules, the **Finance Officer, VTC** said that the VTC's rules and regulations had been changing with time. As the Director of Audit had been the VTC's financial auditor, like other auditors, he audited the Council's accounts every year. He would have brought to the attention of the Council any deficiencies or weaknesses he identified in the Council's Financial Rules or systems.

50. The Committee asked why the D of A, when performing financial audit on the VTC, had not revealed the fact that matters which were subject to the approval of the Government were not set out in the VTC Financial Rules. In his letter of 17 March 2000 in ***Appendix 12***, the **Director of Audit** replied that:

- he had been appointed the auditor for the financial audit of the VTC's financial statements from 1982 to 1998 (accounts for the year ended on 31 March 1998);

- external approval procedures were outside the scope of a financial audit which essentially required the auditor to express an opinion as to whether the financial statements showed a true and fair view of the state of affairs. While the financial audit included a review of the internal control system, unless there were specific requirements, it did not normally cover a review of external approval procedures;

- hence, as the financial auditor of the VTC, in the audit report to the Council, the Audit Commission did not raise issues on those matters that required approval from the FB which were not stipulated in the VTC Financial Rules. However, the Audit Commission was entitled to raise such issues when conducting value for money audits of the VTC; and

- the relationship between the VTC and the Government, including the circumstances under which the VTC had to seek authority from the FB, should preferably be set out in a framework agreement or a MAA.

Appointment of consultants for the construction of an annex to the Shatin Campus

51. Paragraphs 3.5 to 3.7 of the Audit Report revealed that the VTC had not conducted a tendering exercise to select a project consultant for the construction of an annex to the Shatin Campus. According to paragraph 3.6, the Estates Officer suggested that a decision be made on whether a firm recommendation be submitted to the VTC Estates Committee for approval, or whether the Estates Committee be requested to choose from a list. The Committee asked why the Executive Director, VTC had not asked the Estates Committee to choose from a short list of firms, thereby creating an impression that the project was tailor-made for a particular firm.

52. The **Executive Director, VTC** stated that:

- for similar projects, since the establishment of the VTC in 1982 up to the end of 1998, the VTC had never adopted tendering for the appointment of consultants. Clause 11(1)(a) of the VTC Financial Rules stated that "the Council may generally or specially authorise the making of any purchase or the obtaining of any service for the Council without recourse to tender". The usual practice was not to put such projects to tender; and

- the Architectural Services Department (ASD) had confirmed that it was not necessary for the VTC to follow the Government's tendering procedures.

53. The **Executive Director, VTC,** in his letter of 20 December 1999 in ***Appendix 9***, supplemented that:

- it had been the practice of the VTC to delegate to its Estates Committee the authority to select consulting architects. It was for the Estates Committee to decide whether a single nomination should be accepted or it might request

VTC staff to provide information and recommendations about a number of firms. A single nomination was accepted as long as the Estates Committee considered that the firm was technically competent to carry out the particular job, taking into account the nature of the project; and

- in the case of a small project, such as the construction of an annex to the Shatin Campus, it was quite typical to nominate only one firm, particularly if the firm had the appropriate experience and characteristics.

54. As regards the details of the process for the selection and appointment of the consultant and the role played by the Executive Director, VTC in making a decision, the **Executive Director, VTC** informed the Committee in his letter of 20 December 1999 in ***Appendix 9*** that:

- the Estates Officer sent the Executive Director a memorandum on 3 June 1998 about the selection of a design consultant for the Shatin Annex identifying five firms he had approached to express interest, but he recommended only three of them for further consideration;

- the matter had been discussed at a senior management meeting, following which, after further consultation with the Chief Technical Adviser and the Director of Architectural Services, one firm was recommended to the Executive Director by the Estates Officer for approval by the Estates Committee. In approving the Estates Committee paper drafted by the Estates Officer, the Executive Director had sought confirmation from the Estates Officer whether the single nomination practice was in line with the Council's internal procedures and the answer was in the positive; and

- as stated in the Estates Committee paper, the recommended firm had "undertaken a number of educational and institutional buildings, and the size and nature of the project is well-suited to this small practice of about 20 staff". Hence, the firm was recommended to the Estates Committee.

55. In his letter of 7 January 2000 in ***Appendix 10***, the **Director of Audit** commented that:

- although the Estates Committee had been delegated the authority to decide whether or not a single nomination should be accepted, Audit considered that single or restrictive tender procedures should only be used in circumstances where open competitive tendering would not be an effective means of obtaining the requisite supplies or services. This was to ensure that the tender process was open, fair and competitive;

- in the case in question, the value of the consultancy services for the project was estimated at $7.5 million, which could not be regarded as small. Also, there was no evidence to show that there were special circumstances which warranted single tender procedures; and

- Audit maintained the view that, in order to obtain value for money, competitive tenders should be the norm and single tenders should only be used in exceptional circumstances.

56. The Committee noted from paragraph 3.7 of the Audit Report that the consultancy fee was based on a scale of fees on the value of the project, which was not in line with the prevailing practice of remuneration for similar consultancy work, which was normally on a lump sum basis subject to competitive bidding. The Committee queried why the lump sum fee bidding system was not adopted and whether the ASD had been consulted.

57. **Mr PAU Siu-hung, Director of Architectural Services**, said that:

- before February 1999 the Government did not require subvented organisations to adopt the fees bidding system. These organisations only followed the scale of fees of the professional bodies. In February 1999, as a result of a query from the Legislative Council, the ASD discussed with the Works Bureau and the FB and it was decided that the fees bidding system should be adopted; and

- as the construction of an annex to the Shatin Campus was committed before February 1999, it was not necessary for the VTC to adopt the fees bidding system. The VTC had full power to decide on the system to use.

58. In his letter of 3 March 2000 in ***Appendix 13***, the **Director of Architectural Services** supplemented that:

- the VTC's capital works projects were normally funded from Head 708 - Capital Subventions and Major Systems and Equipment. Although capital subvention projects had been subject to examination by the Public Works Subcommittee of the Legislative Council since the 1996-97 legislative session in the same way as other Public Works Programme projects, the Public Works Programme procedures for Government projects did not apply to them;

- as subvented organisations were not Government departments, the Government had given them some flexibility in their operation. They had not been required to adhere to Government departments' lump sum comparative technical/fees proposals selection system;

- the Government reviewed the appointment system in February 1999 and decided that subvented organisations should also adopt the competitive comparative selection system similar to that used by Government departments. The Secretary for Education and Manpower had subsequently informed the VTC about the fees bidding system for new subvented projects; and

- he confirmed that the VTC was not required in mid-1998 to use the fees bidding system when they selected consultants for the project.

59. In the light of the remarks of the Director of Architectural Services, the Committee considered that the VTC had not contravened any Government rules and regulations. In response, the **Director of Audit** said that Audit was not criticising the VTC for deviating from Government rules and regulations. Audit only pointed out that the best practice was fees bidding system and hoped that the VTC would adopt the new system in future.

60. In his letter of 7 January 2000 in ***Appendix 10***, the **Director of Audit** added that a lump sum fee had the advantages of being subject to competitive bidding and providing a better basis of financial control. The lump sum comparative technical/fee proposals system had been in use for Government projects since 1994. In Audit's view, the VTC should have taken the initiative of identifying and following the best practice in remunerating consultancy work.

<u>Award of contracts for security services for VTC buildings</u>

61. According to paragraph 3.11 of the Audit Report, the security services contract for VTC buildings had been renewed for six times and most of the security services had not been put out to tender since November 1989. In this connection, the Committee asked why the security services contract had been renewed without tendering and whether the Independent Commission Against Corruption (ICAC) had raised any query on the issue.

62. The **Executive Director, VTC** responded that:

- it was true that from 1989 to 1996 the security services contract had been renewed with Company A without recourse to tender. In 1996, before deciding whether the contract should be renewed, the Council's Supplies Tender Board had deliberated as to whether the prices could be lowered. Hence, the security services for some campuses and training centre complexes were put out to open tender. The contract was awarded to another company, i.e. Company B;

- upon the expiry of the contract, the services were tendered out again in 1998. The Supplies Tender Board accepted the second lowest bid although Company B submitted the lowest bid. That was because the performance of Company B was not satisfactory; and

- there had not been any ICAC query on the matter.

63. In his letter of 20 December 1999 in ***Appendix 9***, the **Executive Director, VTC** supplemented that:

- the main purpose of renewing the security services contract with Company A in the earlier years was to secure the continuity of satisfactory services based on the positive comments received from the Security Services Committee and campuses/centres on the company's performance. Such arrangements would cause minimum interruption to the operation of these centres; and

- prior to each contract renewal, price negotiations were conducted by the Supplies Section to ensure that the VTC could obtain the best value for money.

64. The **Chairman, VTC** commented that the VTC might need a set of more sound and standardised rules for procurement. He would discuss with the Executive Director to ascertain if the Council's Financial Rules could be updated and improved.

65. In response to the Committee's question about the involvement of the VTC's Supplies Tender Board in the renewal of the contracts, the **Executive Director, VTC** advised the Committee in his letter of 20 December 1999 in ***Appendix 9*** that:

- the Supplies Tender Board was responsible for the vetting of all non-works tenders of a value exceeding $500,000 and was empowered by the Council to approve all non-works tenders of a value up to and including $10,000,000. The Board did not take part in any price negotiation with tenderers/contractors. That was the responsibility of the Council's Supplies Section; and

- in the context of renewal of the security services contracts for VTC buildings, negotiations of contract prices were conducted by the Head of the Supplies Section and his procurement team. Price negotiations and comparisons for each contract renewal were presented in the papers seeking approval of the Supplies Tender Board and the Council.

66. The Committee further enquired:

- about the justifications for the VTC's statement that Company B's performance had not been satisfactory; and

- whether it was in line with general tendering procedures for the VTC to reject Company B only after it had submitted the bid but not earlier, such as during the pre-qualification stage.

67. In response, the **Chairman, VTC** said that although in most cases the lowest bid would be accepted in Government departments' tendering exercises, this was not a standard requirement. The departments still had to make sure that the lowest bidder met their requirements.

68. The **Executive Director, VTC** informed the Committee in his letter of 20 December 1999 in ***Appendix 9*** that:

- a public tender exercise for security services was carried out in 1998 and an advertisement was placed in four newspapers on 9 and 10 December 1998. Tender pre-qualification procedures were not applicable in this public tender exercise and any company/contractor was free to submit offers. By the tender closing date, a total of 15 bids were received and the lowest offer was from Company B; and

- the performance of Company B was considered unsatisfactory based on the feedback and complaints from the management of campuses and training centres. Both written and oral complaints against Company B had been received by the Supplies Section during the contract period from 1996 to 1998. The complaints included failure to provide relief guards for absentees, aged guards without adequate training, guards required to work for two consecutive shifts, poor punctuality and inadequate site visits of patrolling officers. A number of review meetings with the management of the company had been conducted and seven warning letters had been issued during the contract period.

69. The **Director of Audit**, in his letters of 22 December 1999 and 7 January 2000 in ***Appendices 14 and 10***, stated that:

- in normal circumstances, open tendering would be used by the Government. All interested contractors were free to submit their tenders, but the Government was not bound to accept the lowest tender. There might be circumstances which warranted the pre-qualification of a list of tenderers, such as when the projects were of a complex nature or when the products were critical to the user departments. The provision of security services for government buildings did not normally fall into this category;

- in circumstances where there was a frequent need to invite tenders for particular services but not all contractors in the market were capable of providing the required services, Government departments might establish lists of qualified contractors for such services. In the case of security services for VTC buildings, the tendering exercises were not frequent. The VTC did not establish a list of qualified contractors. As the performance of Company B was not considered satisfactory, it was in line with general tendering procedures for the VTC to reject the company's tender even though its bid was the lowest; and

- Audit did not question the tender exercise in 1998. Instead, Audit was concerned that the security services contract had been renewed six times and most of the procurement of the security services had not been put out to tender since November 1989. Without going through a tender process, there was insufficient assurance that the VTC had obtained the best value for money.

Advertising of VTC courses

70. Paragraphs of 3.12 and 3.13 of the Audit Report revealed that the Director of Marketing and Public Relations had acquired directly a package of advertising services from a television broadcasting company, despite the fact that the advertising services should have been procured by open tender in accordance with the Financial Rules. Subsequently, a covering approval was obtained from the Council to rectify the anomaly. The Committee asked for the Council's justifications for giving the covering approval.

71. The **Executive Director, VTC**, in his letter of 20 December 1999 in ***Appendix 9***, informed the Committee that:

- the acquisition of four three-minute, mini-segments on prime time TVB-Jade at a total cost of $320,000 inclusive of production, air time and licensing rights for one year was considered by the VTC to be the most cost-effective way to achieve marketing objectives based on a comparison of the ratings and cost-per-thousand analysis of the television channels; and

- owing to the lack of knowledge of the tendering procedures, the Director of Marketing and Public Relations, a newcomer to the VTC, had allowed the staff to acquire the service from TVB without recourse to tender.

Building and use of senior staff quarters

Increase in project estimate in the construction of senior staff quarters

72. According to paragraphs 4.7 and 4.8 of the Audit Report, the project estimate for constructing the VTC's senior staff quarters was increased from $170 million in September 1993 to $255 million in May 1994 without approval from the Administration. The Committee asked why the VTC did not seek approval from the Administration for the significant increase in project cost.

73. The **Executive Director, VTC**, in his letter of 20 December 1999 in **A*ppendix 9*,** and the **Chairman, VTC** said that:

- the amount of $170 million was only an initial indicative cost estimated during the feasibility study and was not expected to be the final cost of the project as the detailed design was not yet available at that time. Eventually, upon completion of the detailed design, the Council approved the amount of $255 million. Hence, there was no overrun in the project cost;

- the variation of $85 million between the indicative cost and the approved estimate was largely due to the provision for further price fluctuations, and noise mitigation measures to satisfy the requirements of the Environmental Protection Department plus contingency; and

- it was agreed that the VTC should have notified the Government of the increase and it was an oversight that this had not been done. The VTC would seek approval from the Government for any significant increase in the project cost of future building projects.

Vacant quarters and the Home Financing Scheme

74. The Committee noted from Table 4 in paragraph 4.24 of the Audit Report that out of the 100 quarters, 15 were vacant. According to paragraph 4.39, the Executive Director, VTC said that he would take action to deal with the surplus quarters. In this regard, the Committee asked what actions had been taken.

75. The **Executive Director, VTC** responded that all VTC staff, irrespective of whether they were eligible for housing subsidy, had been approached to see if they were interested in renting the vacant quarters. The VTC was also consulting the Administration to ascertain whether the quarters could be rented out to members of the public.

76. The **Chairman, VTC** added that the above were only short-term measures. At present, the FB was considering the introduction of a Home Financing Scheme (HFS) for VTC staff. If the Administration eventually agreed to implement the Scheme, many staff members would opt for the HFS instead of the staff quarters. Then, the vacancy rate of the quarters would further increase. In that case, he would suggest that all the quarters be returned to the Administration.

77. On the HFS, the Committee noted from paragraph 4.46 of the Audit Report that the FB was conducting an assessment on the viability and financial implications of implementing the HFS for the staff of the VTC. The Committee enquired about the progress of the assessment.

78. In response to the Committee's enquiry, the **Secretary for the Treasury**, in her letter of 13 March 2000 in ***Appendix 15***, stated that:

- the FB had no in-principle objection to introducing a HFS for eligible staff of the VTC in place of existing housing benefits, on the understanding that this would produce long-term cost savings as in the case of similar schemes for the civil service and the institutions funded by the University Grants Committee;

- to take the matter forward, the FB had prepared a set of preliminary financial analysis based on the VTC's input and a number of assumptions relating to the take-up rate and inflation rate. The figures were being updated in the light of the downward adjustment to the rates of the Home Financing Allowance and the reduction in the rates of the Private Tenancy Allowance from 1 April 2000;

- apart from the cost and benefit analysis, a more fundamental issue that needed to be resolved before the Administration could come to a clearer view on the viability of a HFS for the VTC was the disposal of the VTC's senior staff quarters. The quarters were financed by a private bank loan to be repaid, among other things, by installment through the Government's recurrent grant to the VTC. The outstanding loan amount was about $100 million. Moreover, there was an understanding between the Government and the VTC that as and when the loan had been fully repaid, benefits would accrue to the Government through a reduction in recurrent grants; and

- the FB would continue discussions with the EMB and the VTC on the revised financial analysis and possible disposal arrangements that would yield the most benefits in the public interest. The FB would keep the Committee informed of developments and if a financially viable case existed, it would approach the Finance Committee for the necessary approval.

<u>Utilisation of swimming pools</u>

79. According to paragraph 4.20 of the Audit Report, the utilisation rates of the swimming pools in the Institute of Vocational Education, Chai Wan and Tsing Yi campuses were low. The Committee therefore asked what measures the VTC had taken to increase the utilisation rate and to reduce the operation costs of the swimming pools.

80. The **Executive Director, VTC**, in his letters of 20 December 1999 and 6 March 2000 in ***Appendices 9 and 16***, replied that:

- during the opening session of the swimming pools in the Chai Wan and Tsing Yi campuses in 1999, the average number of users per day was 42. The average running cost per swimming pool for the year 1999-2000 was around $1.2 million; and

- the measures to increase the utilisation rates of the pools included renting out the facilities to local schools, aquatic clubs and other local community organisations, organising aquatic activities with associated campuses like Nexus Swimming Gala, allowing part-time students to use the facilities and encouraging students and staff to bring guests.

81. **Conclusions and recommendations** The Committee:

Framework agreement and performance indicators

- express concern that despite the fact that the Vocational Training Council (VTC) was established in 1982, a detailed Memorandum of Administrative Arrangement or a framework agreement between the VTC and the Government has still not been drawn up;

- note the Secretary for Education and Manpower's undertaking that he aims to finalise the framework agreement with the VTC towards the end of April 2000;

- recommend that the Administration and the Executive Director, VTC should:

  (i) include in the framework agreement key output and outcome performance indicators for planning and measuring the results of vocational education and training services; and

  (ii) promulgate such indicators in the Annual Estimates;

- wish to be kept informed of the progress in drawing up the framework agreement;

- express concern that:

  (i) the Government's subvention rules provide only broad guiding principles for the operation of the VTC;

  (ii) the VTC was not placed in a position to judge what are the best practices expected of it by the Government in relation to matters such as the leave encashment scheme and the all-in pay package which the Government has an interest to know or may wish to express a view on; and

  (iii) the public officers appointed to the VTC did not have a specific role to play insofar as advising the VTC as to what were the matters for which approval of the Government should be sought;

- acknowledge that the VTC is given a high degree of autonomy and not required to adhere to the financial rules of the Government, and its Financial Rules allow exceptions to be made;

- expect the VTC to follow voluntarily the best practices of corporate governance, in particular to examine the justifications put up for its approval critically and to approve exceptions sparingly;

- recommend that:

  (i) the Secretary for the Treasury should review the Financial Rules of the VTC to ensure compliance with the new framework agreement and the relevant subvention rules. In particular, matters which are subject to the approval of the Government should be clearly set out;

  (ii) since the VTC Ordinance does not require the appointment of a representative of the Finance Bureau to the VTC, the Administration should arrange for one of the public officers appointed to the Council to be responsible for reminding the Council of the Government's subvention rules; and

  (iii) the Executive Director, VTC, as the vote controller, should then observe the requirement to seek prior approval from the Government where necessary in the light of the review and the new framework agreement;

Management practices of the Vocational Training Council

Administration of remuneration and fringe benefits

- note that the Executive Director, VTC has agreed that he will take account of the conditions of service of staff in other tertiary institutions, subvented bodies and the Government, and that he will take prompt action to implement changes in conditions of service with the approval of the VTC;

- note that the Executive Director, VTC has undertaken to review the Staff Loan Scheme with the objective of introducing a requirement for an appropriate purpose for the loan and introducing repayments to be made on an interest plus principal basis;

- wish to be kept informed of the results of the review of the Staff Loan Scheme;

- express concern that despite the lack of a similar leave encashment scheme in the civil service and despite the fact that the scheme would involve additional public funding, the scheme had been implemented by the VTC without prior approval from the Government;

- express dismay that:

  (i) the Executive Director, VTC had only relied on the findings of a casual enquiry when proposing to the Council to change the normal remuneration arrangement to an all-in pay package (including a monthly cash allowance in lieu of housing benefits, contract gratuity, etc.) in respect of a vacant senior staff position which was going to be filled by open recruitment, notwithstanding that there were vacant quarters and that the payment of contract gratuity should normally be made upon the satisfactory completion of a contract; and

  (ii) having received 92 applications for the position in the recruitment exercise, the Executive Director, VTC still proceeded with the exercise without realising that the all-in package might have been too generous and the exceptional arrangement might not, therefore, be justified;

- express concern that the VTC, in granting approval for offering the all-in pay package, has not critically examined the justifications;

- wish to be kept informed of the results of the review when the contract with the senior staff member concerned is due for renewal;

Management practices of the Vocational Training Council

Procurement of goods and services

- express concern that the VTC has acquired directly a package of advertising services from a television broadcasting company despite the fact that the services should have been procured by open tender in accordance with the Financial Rules;

- note the admission by the Executive Director, VTC that owing to the lack of knowledge of the tendering procedures, the Director of Marketing and Public Relations, who was a newly recruited staff member of the VTC, allowed the acquisition of advertising services without recourse to tender;

Building and use of senior staff quarters

- express serious concern that despite the significant increase in the project cost of senior staff quarters, the VTC did not seek approval from the Secretary for Education and Manpower for the increase in project cost;

- note that the Executive Director, VTC has undertaken to seek approval from the Administration for significant changes in project cost in future building projects;

- express concern that the utilisation rate of the two swimming pools at the Chai Wan and Tsing Yi campuses was very low;

- acknowledge that the VTC has taken measures to increase the utilisation rate of the swimming pools, and urge the VTC to make the facilities available to local schools and community organisations;

- wish to be kept informed of the results of the action taken to increase the utilisation rate of the swimming pools;

- express grave concern that 15 of the 100 senior staff quarters were vacant and the notional rents for the vacant period are estimated at $10 million;

- recommend that the Executive Director, VTC should take prompt and effective measures to deal with the problem of surplus quarters, having regard to the future demand for quarters by eligible staff; and

- wish to be kept informed of the cost and benefit analysis conducted by the Administration on the introduction of a Home Financing Scheme for the staff of the VTC, and the possible disposal arrangements for the VTC's senior staff quarters.

Management practices of the Vocational Training Council