

**REPORT OF THE
PUBLIC ACCOUNTS COMMITTEE
ON
THE REPORTS OF THE DIRECTOR OF AUDIT
ON
THE ACCOUNTS OF THE GOVERNMENT OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION
FOR THE YEAR ENDED
31 MARCH 1998
AND THE RESULTS OF
VALUE FOR MONEY AUDITS (Report No. 31)**

February 1999

P.A.C. Report No. 31

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I. INTRODUCTION

The Establishment of the Committee The Public Accounts Committee is established under Rule 72 of the Rules of Procedure of the Legislative Council of the Hong Kong Special Administrative Region, a copy of which is attached in *Appendix 1* to this Report.

2. **The Membership of the Committee** The following Members are appointed by the President under Rule 72(3) of the Rules of Procedure to serve on the Committee:

Chairman	The Hon Eric LI Ka-cheung, JP
Deputy Chairman	The Hon Fred LI Wah-ming
Members	The Hon David CHU Yu-lin The Hon NG Leung-sing The Hon Mrs Sophie LEUNG LAU Yau-fun, JP The Hon LAU Kong-wah The Hon Emily LAU Wai-hing, JP
Clerk	Mrs Florence LAM IP Mo-fee
Legal Adviser	Mr Jimmy MA Yiu-tim, JP

II. PROCEDURE

The Committee's Procedure The practice and procedure have been determined by the Committee, in accordance with Rule 72 of the Rules of Procedure, as follows:

- (a) the public officers called before the Committee in accordance with Rule 72 of the Rules of Procedure, shall normally be the Controlling Officers of the Heads of Revenue or Expenditure to which the Director of Audit has referred in his Report except where the matter under consideration affects more than one such Head or involves a question of policy or of principle in which case the relevant Bureau Secretary of the Government Secretariat or other appropriate officers shall be called. Attendance before the Committee shall be a personal responsibility of the public officer called and whilst he may be accompanied by members of his staff to assist him with points of detail, the responsibility for the information or the production of records or documents required by the Committee shall rest with him alone;
- (b) where any matter referred to in the Director of Audit's Report on the accounts of the Government relates to the affairs of an organisation subvented by the Government, the person normally required to attend before the Committee shall be the Controlling Officer of the vote from which the relevant subvention has been paid, but the Committee shall not preclude the calling of a representative of the subvented body concerned where it is considered that such a representative can assist the Committee in its deliberations;
- (c) the Director of Audit and the Secretary for the Treasury shall be called upon to assist the Committee when Controlling Officers or other persons are providing information or explanations to the Committee;
- (d) the Committee shall take evidence from any parties outside the civil service and the subvented sector before making reference to them in a report;
- (e) the Committee shall not normally make recommendations on a case on the basis solely of the Director of Audit's presentation;
- (f) the Committee shall not allow written submissions from Controlling Officers other than as an adjunct to their personal appearance before the Committee; and

PROCEDURE

- (g) the Committee shall hold informal consultations with the Director of Audit from time to time, so that the Committee can suggest fruitful areas for value for money study by the Director of Audit.

2. **The Committee's Report** This Report by the Public Accounts Committee responds to the Reports of the Director of Audit on:

- the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 1998; and
- the results of value for money audits (Report No. 31),

which were tabled in the Legislative Council on 18 November 1998. Value for money audits are conducted in accordance with the guidelines and procedures set out in the Paper on Scope of Government Audit in the Hong Kong Special Administrative Region - 'Value for Money Audits' which was tabled in the Provisional Legislative Council on 11 February 1998. A copy of the Paper is attached in *Appendix 2*.

3. This Report also takes stock of the progress of the action taken by the Administration on the recommendations made in the Committee's Reports Nos. 28 and 29 and offers the Committee's views on the action taken. These are detailed in Sections III and IV of this Report.

4. **The Government's Response** The Government's response to the Committee's Report is contained in the Government Minute, which comments as appropriate on the Committee's conclusions and recommendations, indicates what action the Government proposes to take to rectify any irregularities which have been brought to notice by the Committee or by the Director of Audit and, if necessary, explains why it does not intend to take action. It is the Government's stated intention that the Government Minute should be laid on the table of the Legislative Council within three months of the laying of the Report of the Committee to which it relates.

**III. REPORT OF THE PUBLIC ACCOUNTS COMMITTEE
ON REPORT NO. 28 OF THE DIRECTOR OF AUDIT
ON THE RESULTS OF VALUE FOR MONEY AUDITS (REPORT NO. 28)**

The Laying of the Report Report No. 28 of the Director of Audit on the results of value for money audits was tabled in the former Legislative Council on 9 April 1997. The Committee's subsequent Report (Report No. 28) was tabled on 11 June 1997.

2. **The Government Minute** The Government Minute was laid on the table of the Provisional Legislative Council on 10 September 1997. A progress report on matters outstanding from the Minute was issued on 23 October 1998. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 14 below.

3. **The implementation of policies on the prevention of double housing benefits and the suspension of pensions for retired civil servants in publicly-funded organisations** (Paragraphs 5.1 - 5.22 of P.A.C. Report No. 28). The Committee were informed that:

- the Civil Service Bureau (CSB) and the Finance Bureau (FB), in consultation with the relevant Policy Bureaux, had reviewed the various types of publicly-funded organisations to determine which of them should be subject to the prevention of double housing benefits rules. The Administration was considering how best to take the matter forward; and
- in the light of the concerns of the Committee on the application of the existing policy on the suspension of monthly pension for retired civil servants employed by publicly-funded organisations, the CSB undertook to review the policy. The CSB had completed the review, having regard to its original rationale and objectives. The review re-examined the principles and rationale of pension suspension in respect of re-appointment to the public service and employment by subvented organisations gazetted for this purpose, in the light of the legal provision that pension was a right. The CSB was evaluating the options of modifying the existing policy of pension suspension and their implications, with a view to formulating a recommendation for consultation.

4. The Committee wish to be kept informed of further development on the subject.

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5. **Departmental quarters retained by the Hospital Authority** (Paragraphs 5.23 - 5.68 of P.A.C. Report No. 28). The Committee were informed that:

- the Administration would continue to ensure that the quarters managed by the Hospital Authority (HA) were put to optimum use. The Administration was also actively considering renting out those vacant units, which had no identified hospital use in the short term, for residential or welfare uses;
- the Working Group chaired by the Health and Welfare Bureau (HWB) with representatives from the HA, the Government Property Agency (GPA) and the Architectural Services Department (Arch SD) continued to monitor the utilisation of the quarters retained by the HA. In addition to the 43 units which had already been written off (40 units in the Princess Margaret Hospital demolished for redevelopment into a specialist clinic and three units in the West End Path Quarters Block near the Tsan Yuk Hospital handed over to the GPA for re-allocation to the Department of Health), the HA had also handed over 96 units in the Castle Peak Hospital to the GPA for other uses during the first quarter of 1998-99 to further reduce the number of quarters managed by the HA to 2,502. As at the end of August 1998, 1,809 of these units had been put to hospital uses and 411 units rented out for residential purposes. The existing position of the remaining 282 vacant quarters was as follows:

	Number of units
(i) to be put to other hospital uses during 1998-99	67
(ii) to be put to other hospital/welfare uses before 2002-03	182
(iii) to be demolished during hospital redevelopment in 1998-99	15
(iv) to be rented out to staff in 1998-99	18

- on rental valuation, the HA adopted the consultant's recommendations following the rental survey completed in October 1997 as the basis of its rental revision which took effect on 1 January 1998. To ensure that the rental charged could appropriately reflect the prevailing market conditions, the HA had decided to increase the frequency of rental surveys from once a year to twice a year. The consultant engaged by the HA completed another rental survey in April 1998. The recommendation of the survey had been used as the basis of the rental revision which took effect on 1 July 1998;

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- of the 80 quarters in Block E of the Prince of Wales Hospital (PWH) returned by the HA, 28 units on the lower floors were reserved for welfare uses. As regards the remaining 52 quarters, three were being used as HA's call rooms, seven had been allocated to the Independent Commission Against Corruption as departmental quarters and one to the Police Force. The GPA had arranged the remaining 41 units to be leased out at market rate on a short-term basis. As at the end of August 1998, the GPA successfully let out 16 of these 41 units, including three to the HA staff. To resolve the carpark problem associated with the use of these quarters, the HA had agreed to fund the construction of 80 additional carparking spaces within the PWH. The first 52 of these carparking spaces had been completed and handed over to the GPA in November 1997, while the remaining 28 would be handed over to the GPA upon completion of minor enhancement works;
- for the 28 reserved units in Block E of the PWH for welfare uses, four units had been let to the Youth Outreach for the provision of youth counselling services, four units had been reserved for a half-way house, 14 units would be used for a commercially-run elderly home, four units would be occupied by the Harmony House and two units remained vacant. An open tendering exercise for the elderly home was underway. The HWB would continue to explore opportunities for putting other vacant quarters managed by the HA to welfare uses. The possibility of converting some 60 quarters in the Pamela Youde Nethersole Eastern Hospital into welfare uses was being explored;
- the Administration agreed that the HA should avoid designating more quarters as storerooms than were necessary. The HA would periodically examine the storage requirements of individual hospitals with a view to keeping the number of quarters-converted storerooms to a minimum and would arrange regular visits to hospitals to ensure the optimal use of storage space; and
- the HA and the Arch SD had completed a survey of the fire prevention facilities in the quarters-converted offices. Upgrading works were underway in some of these offices while cost-effective rectification measures for others were being considered. The Working Group would closely monitor the situation to minimise the risk of fire in these converted offices.

6. The Committee wish to be kept informed of further development on the subject.

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7. **Employment of departmental contract staff** (Paragraphs 5.79 - 5.84 of P.A.C. Report No. 28). The Committee were informed that:

- in November 1997, the Radio Television Hong Kong (RTHK) completed the review on the employment of departmental contract staff (DCS). The review recommended the re-definition of the three categories of DCS; a phased approach to reduce the number of long serving DCS Category I; the creation of 70 additional permanent posts to reduce the RTHK's dependence on "full time" DCS Categories II and III; and the strengthening of the administration of DCS matters;
- since 1 October 1996, the RTHK had reduced the number of DCS Category I staff by 30% from 143 to 100. It would further reduce the number to 90 or less by the end of 1998. The RTHK planned to conduct 20 recruitment exercises of permanent Programme Officer grade staff in 1998-99 to further reduce the total number of DCS Category I. Moreover, the RTHK had terminated the employment of those DCS Category I serving more than ten years. From 1 July 1998, the RTHK had begun to discontinue the employment of those DCS Category I with eight years' service;
- since July 1998, the RTHK had deployed an additional Executive Officer I post to strengthen the administration of DCS matters; and
- the RTHK would continue to discuss with the Information Technology and Broadcasting Bureau, the Finance Bureau and the Civil Service Bureau to consider the most cost-effective options for meeting the Department's operational requirement through engagement of DCS Categories II and III or other means of employment.

8. The Committee wish to be kept informed of further development on the subject.

9. **Royalties for radio broadcasting of copyright musical works** (Paragraphs 5.85 - 5.91 of P.A.C. Report No. 28). The Committee were informed that:

- in August 1997, the Radio Television Hong Kong (RTHK) sought legal advice from the Department of Justice on whether the RTHK could recover the royalties overpayment of \$8.5 million from the Composers And Authors Society of Hong Kong Limited (CASH) based on the terms and conditions of the current licence agreement. In September 1997, the Department of Justice advised the RTHK that the royalties overpayment could not be recovered from

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CASH;

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- in May 1998, the RTHK and CASH completed the joint monitoring exercise to find out the actual usage of CASH music during the monitoring periods in July 1997 and December 1997/January 1998. The results indicated that if the formula specified in the current licence agreement was adopted, the royalties rates for the two monitoring periods would be 5.60157 per cent and 5.22111 per cent respectively, as against the existing fixed rate of 4.23276 per cent. CASH suggested to apply 5.41134 per cent, i.e. the average of 5.60157 per cent and 5.22111 per cent, as the new rate on the Radio Division's gross annual expenditure for calculating the annual royalties with effect from the licence year 1997-98;
- in June 1998, the Director of Broadcasting sought the Secretary for the Treasury's views on the basis of royalties calculation and suggested to have an agreed line of approach within the Government before re-opening the negotiation with CASH;
- in August 1998, the Secretary for the Treasury said that both the results of the joint RTHK/CASH monitoring exercises of music usage, and the RTHK's new radio programming strategy (with expanded Putonghua and reduced simulcast programmes) implemented with effect from 30 March 1998, pointed to the inadequacy of the present fixed percentage approach in responding to changes in the RTHK's music usage, for determining the royalties payable. The Secretary considered that there were merits for the RTHK to explore with CASH a unit cost approach, i.e. royalties per music hour, in the context of the current discussion on revising the existing formula. After establishing a unit hourly rate for the first year, royalties for the subsequent years would then be based on inflation and music usage; and
- the RTHK was actively discussing with the Information Technology and Broadcasting Bureau and Finance Bureau on options for establishing with CASH a simple and equitable measure for assessing and paying for CASH music usage.

10. The Committee wish to be kept informed of further development on the subject.

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11. **The Government's role in the development of electronic data interchange for the business community** (Paragraphs 6.1 - 6.18 of P.A.C. Report No. 28). The Committee were informed that:

- the Administration had made further progress in the implementation of electronic data interchange (EDI) for cargo manifests, dutiable commodities permits (DCP) and certificates of origin (CO) under the Community Electronic Trading Service (CETS), as follows:
 - (i) the Director of Information Technology Services completed the requirement justification study for cargo manifests in December 1997 and started a feasibility study in June 1998. Subject to the result of the feasibility study and the necessary funding approval, EDI for cargo manifests might start to be implemented from mid-1999;
 - (ii) the Director of Information Technology Services completed a requirement justification study for DCP in May 1998 and would proceed to a feasibility study in November 1998. Subject to the result of the feasibility study and the necessary funding approval, EDI for DCP might start to be implemented after mid-1999; and
 - (iii) the computerisation phase for CO was completed in July 1998. The target completion date for the EDI phase was mid-1999; and
- the Administration's participation in the Board of Tradelink had been strengthened recently following the appointment of the Secretary for Information Technology and Broadcasting as a Director of the company. The total number of Government Directors now stood at four.

12. The Committee wish to urge the Administration to closely monitor the progress of the EDI development to avoid slippage and be kept informed of further progress on the subject.

13. **Beneficial use of construction waste for reclamation** (Paragraphs 7.1 - 7.26 of P.A.C. Report No. 28). The Committee were informed that:

- in November 1997, the Fill Management Committee agreed to adopt new terminology to help clarify and promote the use of construction and demolition material in reclamation works. The Civil Engineering Department had prepared video tapes to help educate the public on this matter;

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- in February 1998, the consultancy study on public filling strategy (previously known as public dumping strategy) was completed and its recommendations were accepted by the Advisory Council on the Environment in March 1998. Pursuant to the consultants' recommendations, in March 1998, the Works Bureau promulgated a Technical Circular requiring the works departments to notify the Public Filling Sub-Committee of any reclamations or earth-filling projects with an imported fill requirement of 300,000 cubic metres or more. The Civil Engineering Department would be able to perform a coordinating role in order to secure more public filling capacity in both existing and planned development projects. The Works Bureau also promulgated a Technical Circular in March 1998 to promote the segregation of construction and demolition material in government works projects into inert public fill for reuse in reclamation works and decomposable construction and demolition waste for disposal at landfills;

- in June 1998, the Administration consulted the Eastern, the Central and Western and the Southern Provisional District Boards (PDBs) on the proposed strategy to establish three long-term barging points on Hong Kong Island in 2001/2002. Members of the PDBs in general objected to the provision of three barging points in their districts. The Administration would arrange follow-up consultations with the concerned PDBs on establishing these barging points in their districts in late 1999 after detailed environmental and traffic impact assessments had been completed. In this process, the Administration would also examine the feasibility of including a pilot construction and demolition material sorting facility at the proposed Chai Wan barging point. As regards the temporary barging points, the Aldrich Bay barging point was closed in late August 1998. Two temporary barging points would be established at Sai Ying Pun and Quarry Bay in 1999 to serve as interim public filling outlets on the Island. Having consulted the Central and Western PDB on these proposals in September 1998, the Administration was considering their views; and

- on the landfill charging scheme, the Administration had worked out a set of account billing proposals including a relaxation of the deposit requirement and a longer credit period to address the trade's concerns. The Advisory Council on the Environment, the Provisional Legislative Council Environmental Affairs Panel, the Provisional Urban Council and the Provisional Regional Council supported the proposals in general. The Administration had also discussed the proposals at length with the trade associations and had gained the support of one waste collectors' association. Against this background, the Administration was keeping the appropriate timing for the introduction of landfill charging under constant review.

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14. The Committee:

- express grave concern about the slow progress of the various measures adopted by the Administration to improve the utilisation of construction and demolition material for reclamation works;
- urge the Director of Audit to closely monitor the progress of the measures taken; and
- may consider further investigation into the subject if necessary.

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VALUE FOR MONEY AUDITS (REPORT NO. 29)**

The Laying of the Reports The Director of Audit's Report on the Accounts of the Hong Kong Government for the year ended 31 March 1997 and the Report on the results of value for money audits were tabled in the Provisional Legislative Council on 19 November 1997. The Committee's subsequent Report (Report No. 29) was tabled on 11 February 1998.

2. **The Government Minute** The Government Minute was laid on the table of the Provisional Legislative Council on 1 April 1998. A progress report on matters outstanding from the Minute was issued on 23 October 1998. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 40 below.

3. **Management of surplus non-departmental quarters** (Paragraphs 3.3 - 3.4 of P.A.C. Report No. 29). The Committee were informed that:

- the Working Group on Management of Surplus Non-departmental Quarters would review the Five-year Disposal Programme;
- as at the end of August 1998, the Government property Agency (GPA) had leased out 175 quarters to the private sector. With all the officers affected by the 1997-98 disposal programme and most of the officers affected by the 1998-99 disposal programme being properly rehoused, the Civil Service Bureau (CSB) had re-activated the leasing arrangement and resumed to transfer vacant surplus units to the GPA's leasing pool since June 1998. So far, nine units had been so transferred to the leasing pool;
- with respect to the seven quarter sites earmarked for disposal in 1997-98, the Administration had sold 98 units of the 216 quarters at the four quarter sites at Wilshire Tower, Unicorn Garden, Baguio Villas and Caldecott Road (No. 8 & 10) as at the end of August 1998. In view of the market sentiment, the Administration also offered to lease the remaining flats for a period of up to two years as an interim arrangement. As at the end of August 1998, the Administration had leased out 21 units at Baguio Villas. As regards the remaining three quarter sites for disposal through sale of site, the sites at Cape View and Mt. Austin were sold by auctions on 19 November 1997 and 24 March 1998 respectively, and the tender for the site at Leighton Hill was awarded on 17 April 1998;
- the 14 units originally scheduled for disposal through sale of three sites in 1998-99 would stay put, pending review of the moratorium on land sale by public auction and tender up to the end of March 1999. For the remaining 30 to be sold as individual units, the Administration had already disposed of 23

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units;

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- as regards the sale of 111 individually owned non-departmental quarters (NDQ) flats held by the Financial Secretary Incorporated, the CSB had so far transferred 39 vacant units from the NDQ pool to the GPA for sale. As at the end of August 1998, the GPA had sold 29 such units; and
- the Administration would continue to monitor closely the number of surplus NDQ to ensure that, by means of proactive leasing and sale programmes, all NDQ were put to economic use as quickly as possible against the prevailing market sentiment.

4. The Committee wish to be kept informed of further development on the subject.

5. **Part I: Inspections of places of public assembly by the regional offices and Part II: Revision of fees and charges** (Paragraphs 4.3 - 4.4 of P.A.C. Report No. 29). The Committee were informed that:

- the BD had completed a costing exercise to determine the amount to be charged for its services provided for the restaurant licence applications. The BD was consulting the two municipal services departments on the proposal for recovering the cost of the services provided by the BD under the three-tier system for restaurant licensing.

6. The Committee wish to be kept informed of the progress of introducing a charging system for recovering the cost of the services provided by the BD under the three-tier system for restaurant licensing.

7. **Statutory declaration service for private use** (Paragraphs 4.5 - 4.6 of P.A.C. Report No. 29). The Committee were informed that:

- the enabling legislation to charge a fee for the Home Affairs Department's declaration service was not given a legislative slot in the first half of the 1998-99 Legislative Programme. The Director of Home Affairs had submitted a bid for a legislative slot in the second half of the 1998-99 Legislative Programme to introduce the legislation.

8. The Committee wish to be kept informed of further progress on the subject.

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9. **Adjudication fee for purposes of the Stamp Duty Ordinance** (Paragraphs 4.7 - 4.8 of P.A.C. Report No. 29). The Committee were informed that:

- the Administration would include the charging proposal for adjudication services as endorsed by the Committee when it next amended the Stamp Duty Ordinance.

10. The Committee wish to be kept informed of further development on the subject.

11. **The problems of indebtedness of some civil servants working in the Hong Kong police Force** (Paragraphs 4.13 - 4.14 of P.A.C. Report No. 29). The Committee were informed that:

- the Commissioner of Police had taken various measures to tackle the problems of indebtedness of police officers;
- the results of the latest survey on indebtedness in the Force covering the period from 1 January 1998 to 30 June 1998 had been consolidated as follows:

	<u>Previous survey</u> <u>July to Dec. 1997</u>	<u>Latest survey</u> <u>Jan. to June 1998</u>	<u>Increase(+)/Decrease(-)</u>
(i) Known indebtedness cases from outside sources			
(a) No. of police officers involved	82	107	+30.5%
(b) Total amount of debt	\$18,384,842	\$28,328,458	+54.1%
(c) Average amount per debtor	\$224,205	\$264,752	+18.1%

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	<u>Previous survey</u> <u>July to Dec. 1997</u>	<u>Latest survey</u> <u>Jan. to June 1998</u>	<u>Increase(+)/Decrease(-)</u>
(ii) Loans from Police Credit Union			
(a) No. of loans approved	5,824	6,533	+12.2%
(b) Total amount approved	\$297,378,336	\$337,636,815	+13.5%
(c) Average amount per application	\$51,061	\$51,682	+1.2%
(iii) Notice for recovery of tax by payroll deduction			
(a) No. of police officers subject to the Notice	119	515	+332.8%
(b) Total amount involved	\$1,209,281	\$8,237,573	+581.2%
(c) Average amount per case	\$10,162	\$15,995	+57.4%

- the situation of unmanageable debts had improved over the past three and a half years as the number of officers with unmanageable debts decreased by 26.2% from 145 in the second half of 1994 to 107 in the first half of 1998. Overspending and gambling accounted for about 52% of the officers with unmanageable debts and about 18% of the officers became indebted due to family reasons, when they assisted in debt repayment incurred by family members for various reasons. 16% of indebted cases were related to officers' investment and business failures;
- the increase of 332.8% on the number of notices of tax recovery, when compared with the second half of 1997, might be attributed to the fact that the first half of a year was the peak season for tax payment. When compared with the same period in 1997, the number of notices of tax recovery had

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decreased by 6.2% in the latest survey;

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- the overall situation in the first half of 1998 had undeniably deteriorated as compared with that in the second half of 1997. The economic downturn in the past year had an obvious impact on Force members in the same manner as it had on the community; and
- the Commissioner of Police would continue to implement and enhance measures to tackle the problem, and would closely monitor the indebtedness position by conducting half-yearly surveys.

12. The Committee:

- express concern about the deterioration in the situation of unmanageable debts; and
- urge the Director of Audit to monitor the situation closely and make a report to the Committee in six months' time.

13. **Chemical Waste Treatment Centre** (Paragraphs 4.21 - 4.22 of P.A.C. Report No. 29). The Committee were informed that:

- the Administration agreed to engage a consultant on a time-charged basis to assist in the renegotiation of the contract with the Chemical Waste Treatment (CWTC) operator to reduce the net operating cost of the CWTC. The Administration would seek the advice of the Executive Council on the outcome of the negotiation which was expected to be available by 1999.

14. The Committee wish to be kept informed of the progress on the subject.

15. **Commercialisation of government properties** (Paragraphs 4.27 - 4.28 of P.A.C. Report No. 29). The Committee were informed that:

- in addition to the carpark at the Central Government Offices (CGO), the Government Property Agency (GPA) had awarded the tender to private operators for letting out some carparking spaces at Murray Building Carpark and Wanchai Towers Basement Carpark after office hours. The GPA would continue to explore letting out carparking spaces in other government buildings after office hours;

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- as regards the proposed advertising contract in the Tsing Ma Control Area, the tender originally scheduled for April 1998 had been deferred because the GPA was addressing the concern over the impact of the proposed project on the environment. The GPA would seek the advice of the Airport Development Steering Committee shortly;
- as regards the Blackdown Barracks, the GPA had granted a total of 24 short-term lettings, all of which expired on 30 June 1998. The site was handed over to the Lands Department in July 1998 for redevelopment;
- the GPA had been constantly exploring new commercialisation opportunities in government properties. New lettings under consideration included automatic teller machines and a bank at the ground floor of the North Point Government Offices Building; and
- as regards the use of some surplus government premises as private homes for the elderly, the last tender exercise was cancelled as no conforming tenders were received. Another exercise, which closed on 21 August 1998, was conducted. The GPA was, together with the Social Welfare Department, considering the tender submissions received.

16. The Committee wish to be kept informed of further development of commercialisation opportunities in government properties.

17. **The provision of government wholesale food markets** (Paragraphs 4.33 - 4.34 of P.A.C. Report No. 29). The Committee were informed that:

- the Administration was finalising the alternative development proposal, with a view to rationalising the use of the Phase I site and optimising the development potential of the Phase II site through inclusion of other compatible facilities in the project. The Administration would consult the traders, the District Boards concerned and the Legislative Council Panel on Economic Services in due course;
- the utilisation of the trade offices and ancillary facilities in the wholesale food markets had shown no improvement since it was reported in the Government Minute in April 1998. As at 30 September 1998, all car parking spaces at Phase I of the Cheung Sha Wan Wholesale Food Market were rented out but twelve trade offices in the market remained vacant. The Agriculture and

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Fisheries Department (AFD) would continue to approach other interested parties to put the remaining vacant trade offices to good use. The areas for canteen and bank at the Western Wholesale Food Market had remained vacant since January 1996. Despite substantial lowering of the rental, there was no response to the past three tender exercises. The AFD would continue to make every effort to improve the situation; and

- as regards the possibility to incorporate part of the airspace above the Western Wholesale Food Market into a proposed adjoining development project, the GPA had considered the matter in detail and came to the view that there was no advantage in this course of action since relevant department's needs could be met within the original site boundaries. The GPA would continue to look for other ways to improve the site utilisation of the market.

18. The Committee wish to be kept informed of:

- the progress of the development of Phase II of the Cheung Sha Wan Wholesale Food Market;
- the improvement in the utilisation of the trade offices and ancillary facilities in the wholesale food market complexes; and
- the progress of exploring the possibilities of maximising the utilisation of the site areas of the Western Wholesale Food Market and Phase I of the Cheung Sha Wan Wholesale Food Market.

19. **Departmental quarters for the disciplined services** (Paragraphs 4.35 - 4.36 of P.A.C. Report No. 29). The Committee were informed that:

- the number of leased quarters retained by the Police Force had increased to 56, comprising 46 quarters for the officer grade and ten for the junior police officer grade;
- of the 25 departmental quarters (DQs) vacated by single officers, the Government Flying Service (GFS) had returned 12 to the Government Property Agency (GPA). The remaining 13 DQs had been or would be re-allocated to eligible officers in the department. The GPA had conducted a review on the relevant Accommodation Regulation which dealt with the

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eligibility criteria for and the classifications of DQs, and would consult relevant parties within the Government;

- the progress of departments' investigation and action on cases in breach of Civil Service Regulation (CSR) 809 on the prevention of double housing benefits was as follows:
 - (i) the Correctional Services Department had completed the investigation of all cases identified by the Audit Commission. Appropriate action had been taken against the officer concerned. No further action was therefore required;
 - (ii) the GFS had completed the investigation of all cases identified by the Audit Commission. Since the department had taken disciplinary actions against all concerned officers, no further action was therefore required;
 - (iii) the Customs and Excise Department had completed the investigation of all cases identified by the Audit Commission. Disciplinary action was taken against one officer for breach of CSR 809. The officer was subsequently given a severe reprimand and fined one month's salary. Since the department had taken disciplinary action against the concerned officer, no further action was therefore required;
 - (iv) the Immigration Department had completed investigation into all cases. Disciplinary action was not recommended for those officers suspected of breaching CSR 809. No further action was required; and
 - (v) the Police Force had completed the investigation of all cases identified by the Audit Commission. Since formal disciplinary actions had been taken against those concerned officers, no further action was therefore required;
- the Administration was committed to enforcing the Home Financing Scheme as the only housing benefit for eligible officers appointed on or after 1 October 1990. In line with introduction of a common set of terms of appointment for all new recruits, the Administration intended to require newly recruited disciplined services officers to vacate their DQs on reaching Master Pay Scale (MPS) 34 or equivalent. Newly recruited staff might opt for the Home Financing Scheme on reaching MPS 34 or equivalent; and

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- the GPA had conducted a grading review on all DQs. Consultation with bureaux, departments and staff associations was underway.

20. The Committee wish to be kept informed of further developments on the subject.

21. **Hillside Escalator Link between the Central District and the Mid-Levels** (Paragraphs 4.37 - 4.38 of P.A.C. Report No. 29). The Committee were informed that:

- the study conducted by the Transport Department on the cost effectiveness of the Escalator Link had also concluded that the economic return of the Escalator Link in year 1997 was low. The economic return was expected to diminish further over time. As such, the Escalator Link could not be considered as cost effective in this respect; and
- regarding the redevelopment of the Central Market, the Administration had served a notice to the Provisional Urban Council requesting delivery of the Central Market site to the Government for vacant possession on 31 May 1999.

22. The Committee wish to be kept informed of the progress of the delivery of the Central Market site to the Government for vacant possession.

23. **Home financing and use of senior staff quarters in UGC-funded institutions** (Paragraphs 7.1 - 7.13 of P.A.C. Report No. 29). The Committee were informed that:

- with the approval of funds by the Finance Committee of the Legislative Council, a home financing scheme (HFS) along the lines of the Civil Service HFS had been introduced with effect from 1 October 1998 for eligible staff of the institutions. The HFS was based on the following planning parameters:
 - (i) ensuring that the terms and conditions of staff of the institutions were broadly comparable to, but no better than, those of comparable ranks in the Civil Service;
 - (ii) meeting the home ownership aspirations of eligible staff of the institutions;
 - (iii) reducing the Government's long-term expenditure on housing benefits;

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- (iv) putting to optimal use the surplus quarters arising from the introduction of the HFS; and
- (v) recognising the unique and essential operational needs of the institutions such as the continued requirement to recruit internationally and the policy to recruit initially on contract terms;
- the Administration estimated that the HFS would produce long-term savings to the Government but require additional cashflow in the initial years of implementation;
- suitable arrangements had been put in place addressing the concerns of the Committee;
- the University Grants Committee (UGC) had discussed with the concerned institutions the various cases identified in the Director of Audit's report. All cases that were considered unacceptable by the UGC had been rectified. The other cases had also been looked into and had been or were being regularised. The overall issue of vacant staff quarters was being addressed in the context of the implementation of the newly introduced HFS. The Administration was in discussion with the institutions with a view to finding a mutually acceptable means to ensure that any surplus staff quarters would be put to optimal use; and
- the Administration had taken positive action to address the issues raised in the Director of Audit's report. The only outstanding issue concerned the optimal use of surplus quarters which would be dealt with by a Task Force to be set up following the introduction of the HFS for the institutions. The Administration would report progress on alternative uses of surplus quarters to the relevant Legislative Council Panel from time to time.

24. The Committee wish to be kept informed of the work of the Task Force and the progress made on the uses and disposal of surplus quarters.

25. **Monitoring of charities: fund-raising and tax allowances** (Paragraphs 7.48 - 7.60 of P.A.C. Report No. 29). The Committee were informed that:

- the Health and Welfare Bureau (HWB) and the Social Welfare Department

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(SWD) had worked out an expanded scheme of control for fund-raising activities. The revised scheme would cover all types of fund-raising activities involving an appeal to the public for donations. It aimed to enhance the transparency and accountability of fund-raising organisations to the public. The HWB intended to introduce legislative amendments to give effect to the scheme, which would continue to be administered by the SWD. Meanwhile, a voluntary scheme encompassing some of the main elements of the new arrangements would be introduced shortly;

- among the 20 public subscription permit (PSP) holders in 1996 which did not comply with the permit conditions and had been included in the rejection list for future PSP applications, six had eventually responded to the satisfaction of the SWD and thus had been deleted from the list. As a continuous effort, the SWD had been checking the audited accounts submitted by PSP holders. The accounts of all the 228 PSPs issued in 1997 had been checked. A total of 44 organisations, which were found not complying with the permit conditions, had been included in the rejection list;
- under the new expanded control scheme, all fund-raising organisations would be required to prepare statements of accounts of charitable fund-raising activities according to acceptable accounting standards. In addition, activities raising over \$200,000 should have their statement of accounts audited. Activities which raised \$200,000 or less should have their statement of accounts certified by the chairperson or the head of the organisation concerned. If the fund-raiser was a non-charitable organisation (i.e. organisations which were not exempt from tax under section 88 of the Inland Revenue Ordinance), the fund-raising organisation was required to apply for a Charitable Fund-raising Permit from the Director of Social Welfare before the event could be held. Moreover, the statement of accounts had to be submitted to the Director for inspection within 180 days after the conclusion of the fund-raising activity;
- in order to help fund-raising organisations in ensuring that donation income was properly accounted for, the SWD had, with the assistance of the Hong Kong Society of Accountants (HKSA), formulated a set of internal control guidelines for these organisations. These guidelines would be attached to the fund-raising permits or distributed to charitable organisations exempt from applications for these permits;
- in parallel, the HKSA was preparing a practice note to advise its auditor members on how the charitable fund-raising activities should be audited so as

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to provide, as far as practicable, an assurance that the money raised had been properly accounted for;

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- the SWD would arrange publicity to promote improvement measures aiming to enhance transparency and accountability of fund-raising organisations to the public;
- with regard to the two organisations which were found to have paid remuneration to their directors in 1994 and 1995 respectively, the progress of investigation was as follows:
 - (i) Organisation A - the organisation advised that the remunerated executive director would resign from the Board of Directors. No further action would be taken on the matter; and
 - (ii) Organisation B - after examining the organisation's reply to its queries, the Inland Revenue Department was satisfied that the remunerated directors possessed special qualifications which were not otherwise available to the organisation. No further action would be taken on the matter; and
- the SWD had considered the setting up of a central register of the fund-raising accounts for charities with Television Entertainment Licensing Authority, and had come to the conclusion that it was not feasible to do so.

26. The Committee wish to be kept informed of further progress on this subject.

27. **The monitoring and control of air pollution** (Paragraphs 7.61 - 7.71 of P.A.C. Report No. 29). The Committee were informed that:

- the review of Air Quality Objectives (AQOs) was in progress and was expected to be completed within 1998;
- in February 1998, the Air Pollution Control (Vehicle Design Standards) (Emission) (Amendment) Regulation was published in the Gazette to introduce more stringent emission standards to new diesel private cars from 1 April 1998 and to apply the latest European emission standards to new light diesel vehicles from 1 October 1998;
- the Administration was monitoring ozone at all of the general ambient air monitoring stations. The Administration was also closely liaising with the Guangdong authorities through the Expert Group set up under the Hong

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Kong-Guangdong Environmental Protection Liaison Group with a view to studying and tackling the air pollution problems including ozone in the Pearl River Delta Region. Subject to funding approval from the Finance Committee, the Administration intended to commission in early 1999 a consultancy study on pollution problems caused by nitrogen dioxide, photochemical oxidants and particulate in the Region;

- the Environmental Protection Department (EPD) had commissioned the new roadside station at Central and the general air quality monitoring station at Tap Mun. Both of them came into full operation in September 1998. The EPD would commission the general air quality monitoring station at the Eastern District. In addition, the two power companies had given their consent to the EPD's use of their air quality data in the EPD's air quality reports;
- from 15 June 1998, the EPD had enhanced its report of the Air Pollution Index (API) by adding a roadside API to improve the public awareness of air pollution from vehicles, reporting the general API for each of the monitoring stations, and introducing a new five-band scheme to annotate the different levels of air pollution. Action was being taken to extend the API and Forecast System to Sundays and public holidays by early 1999;
- with the support of the Customs and Excise Department, the EPD had been monitoring closely the environmental impact of vehicle diesel with high sulphur content. The EPD was studying the feasibility of reducing the quantities of duty-free vehicle diesel carried by goods vehicles arriving from the Mainland;
- in November 1997, the Administration commenced a trial of Liquefied Petroleum Gas (LPG) taxis to test the operational feasibility of LPG vehicles under the local environment. Through this trial, the Administration aimed to obtain information on the operating and maintenance costs of such vehicles and establish the appropriate infrastructure requirement. The Government's experience of working with the taxi trade, motor trade and fuel companies on the trial scheme showed that it was feasible to convert the taxi fleet from diesel to LPG fuel. In the Policy Address 1998, the Chief Executive had set out the Government's intention that all new taxis should operate on LPG fuel from the end of the year 2000. The Government would work with the trade and take all necessary steps to ensure that the supporting infrastructure required to support this initiative would be put in place;

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- the Transport Department (TD) had reviewed the effectiveness of a more thorough emission test. The viability of the full implementation of the test would be explored. In the meantime, the TD continued to apply the more thorough emission test on a sampling basis;
- the Administration was in the process of proposing legislative amendment to enable the Police to use smoke meters for their enforcement against smoky vehicles. After the smoke meters were put into use by the Police, the relevant trades would be consulted on increasing the fixed penalty fine on smoky vehicles; and
- the EPD had completed the pilot study on the economic aspects of ambient air pollution on health effects. The Administration would use the findings of the study as an indicator of the health costs in cost-benefit analysis when evaluating future environmental policies.

28. The Committee wish to be kept informed of the development and outcome of the various reviews being carried out by the Administration.

29. **The provision of ambulance service** (Paragraphs 7.72 - 7.85 of P.A.C. Report No. 29). The Committee were informed that:

- since April 1998, the Fire Services Department (FSD) had effected the strategic redeployment of ambulances to facilitate better coverage of emergency ambulance service in line with call patterns in different areas;
- continual adjustment to the deployment of ambulances would be made to meet local growth and changes in demand for emergency ambulance service;
- at the end of September 1998, a batch of 84 new ambulance recruits completed their training and were deployed to man additional ambulances to strengthen the overall emergency ambulance service coverage for the territory;
- the FSD had earmarked suitable sites in Sheung Wan and Kwai Chung for building additional ambulance depots recommended by the 1995 consultancy study. It was also planning to build two new fire stations-cum-ambulance depot at strategic locations in Kowloon Tong and North Point. Other projects being pursued included the construction of ambulance depots and ambulance facilities in Chai Wan, Tseung Kwan O, Sha Tau Kok, Tin Shui

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Wai Area 112 and Mongkok. Efforts were being made with the Government Property Agency to optimise the utilisation of these sites as far as possible;

- the FSD maintained close liaison with the Hospital Authority (HA) and held regular meetings with the HA's accident and emergency consultants for strengthening mutual cooperation and coordination as well as improving the delivery of emergency ambulance service. Seven major hospitals, viz. the Princess Margaret Hospital, Queen Elizabeth Hospital, Tang Shiu Kin Hospital, Prince of Wales Hospital, North District Hospital, Tuen Mun Hospital and Pok Oi Hospital, had agreed to install mobile radio sets at their accident and emergency departments to enable direct radio communication between ambulance crews and their medical staff during emergency operations and major incidents;
- to educate the public on the proper use of the emergency ambulance service, the FSD had prepared a radio Announcement of Public Interest about the service. The Announcement of Public Interest was broadcast through radio in August 1998. A poster to educate the public on the same theme was also being designed;
- in the first and second quarters of 1998, the emergency ambulance service attended to 90.98 per cent and 90.90 per cent of the emergency calls respectively within the target of ten-minute travel time, compared to 89.69 per cent in 1996;
- from September 1997 to March 1998, the FSD tested a new trunked radio system to record response time. The new trunked radio system could collect operational data for the measurement of response time. Based on the findings of the test, the FSD and the Security Bureau were refining the radio system and were considering the arrangements for adopting response time as an indicator of the performance of the emergency ambulance service;
- the ultimate objective of the FSD was to train and qualify all Ambulance Officers to Emergency Medical Assistant (EMA) II level to enable them to effectively supervise and monitor the performance of EMA ambulance crews. In August 1998, a batch of 12 Ambulance Officers completed the EMA course. Currently, 222 ambulance personnel, including 61 Senior Ambulance Officers/Ambulance Officers, had been trained to EMA II level. In April and May 1998, two re-certification programmes were conducted to upkeep the EMA II knowledge and skills of 18 qualified EMA ambulance personnel. The next EMA course for ambulance personnel would be held in

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January 1999;

- the Medical Director engaged by the FSD had been reviewing the FSD's EMA protocols. In order to train qualified EMA II ambulance personnel to master the new protocols, the FSD was developing a "Continuing Medical Education Programme" for all EMA personnel. The Programme would be conducted half-yearly in between re-certification programmes which were held once every three years;
- the FSD continued to closely monitor:
 - (i) the performance of the EMA service to ensure that EMA cases were properly identified and attended by EMA ambulances; and
 - (ii) the deployment of ambulance aid motorcycles (AAMCs) to ensure that they were used effectively in accordance with the prescribed attendance criteria, particularly for emergency calls where the travel time of ambulances was likely to exceed ten minutes. Currently, the FSD operated 23 AAMCs with three additional AAMCs as maintenance reserves. Each AAMC now handled an average of about 174 cases, compared to 59 cases per month in 1996. To further improve the effective utilisation of AAMCs, the FSD was examining the possibility of qualifying AAMC riders to attend EMA cases where the travel time of ambulances might exceed ten minutes; and
- the arrangement whereby appointment times at clinics were pre-scheduled as far as practicable, and patients were grouped into different zones according to their places of residence so that they could be picked up by ambulances within designated zones systematically, further increased the average number of patients carried on each trip from 1.4 in February 1998 to 2.3 in July 1998. The non-emergency ambulance transfer service (NEATS) of the Auxiliary Medical Service (AMS) handled a total of 1,417 requests in July 1998, compared to 1,094 in February 1998, representing an increase of 29.5 per cent.

30. The Committee wish to be kept informed of the progress:

- of achieving the performance target of attending to 95 per cent of emergency calls within a ten-minute travel time;

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- of monitoring the nature of demand for the emergency ambulance service, with the assistance of doctors of the Accident and Emergency Departments of hospitals, so as to ensure that the service is not misused;

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- of adopting response time as the performance measure for the emergency ambulance service;
- of setting an appropriate performance target based on response time and drawing up an operational plan for achieving the response time target, in the event that response time is adopted as the performance measure;
- of ensuring that there are no serious mismatches between the type of ambulance and the type of emergency case and that EMA cases are properly identified and attended by EMA ambulances;
- of training and qualifying all Ambulance Officers to the EMA II level to enable them to effectively supervise and monitor the performance of EMA ambulances;
- of further improving the effective utilisation of AAMCs by qualifying AAMC riders to attend EMA cases where the travel time of ambulances may exceed ten minutes; and
- of further increasing the number of patients carried on each trip and hence the productivity of NEATS of the AMS.

31. **The Government's funding schemes for promoting technology development in industry** (Paragraphs 7.86 - 7.98 of P.A.C. Report No. 29). The Committee were informed that:

- the Trade and Industry Bureau had set up a Working Group with representatives of the Education and Manpower Bureau, the Finance Bureau and the Industry Department, to conduct an overall strategic review of the Applied Research Fund, the Industrial Support Fund (ISF), the New Technology Training Scheme (NTTS) and the Services Support Fund;
- the Chief Executive's Commission on Innovation and Technology was reviewing the existing financing support available for the promotion of innovation and technology, including the funding support given by the Government through the various funding schemes. The recommendations of the Chief Executive's Commission would be taken into account by the Working Group in its overall strategic review;

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- in March 1998, the Finance Committee (FC) gave its approval to merge the two schemes into an Applied Research Fund and to implement the recommendations of the Administration's review on the two schemes, including the hiring of professional venture capital firms to manage the Fund;
- the Administration believed that, with the benefit of their experience in managing technology ventures, these fund managers should be able to add value by providing more management, marketing and networking support, thereby enhancing the technical and commercial viability of funded projects. Selection of fund managers had reached the final stage. The Administration planned to complete all the appointment formalities by October and to have the new arrangement in place by November 1998;
- in March 1998, the FC approved to grant \$525 million to the Applied Research Council for financing applied research and development projects. With this new arrangement and the resulting suspension of transfer of funds from the Capital Investment Fund to the Council, the Administration believed that the possible weakness observed by the Director of Audit concerning the Council's cash flow requirements would not recur;
- the appointed fund managers would be requested to monitor closely the financial position and accounts of funded projects to ensure that the pledged share of contribution by relevant parties were injected into the projects;
- the Administration had stepped up publicity of the Applied Research Fund with more press interviews and newspapers/journal advertisements, etc. This had been reflected in the larger number of applications received since January 1998 i.e. 17 cases up to 31 August 1998 as compared with 13 applications for 1997;
- the Administration had reviewed the current procedures for the management of the funds under the ISF and had ceased making advance payments to funded projects. Instalments would only be released to the projects if the Administration and the relevant committee were satisfied with the progress of the project;
- both the Industry Department and the Board of Directors of the industrial design company had kept under close review the financial position of the company. A number of measures for reducing costs and generating new source of revenue had been implemented (e.g. cutting staffing expenditure and moving into new premises with lower rental);

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- the Industry Department was working closely with the Board of Directors of the Telecommunications Product Technology Centre to improve the Centre's operation and to review regularly the business activities of the Centre. There had been a substantial improvement in the performance of the Centre, in terms of its income and financial position, in the past few months;
- the Vocational Training Council (VTC)'s Sub-Committee on Training in New Technologies had completed the review of the NTTS. Subject to the endorsement of the VTC, the review report would be submitted to the Education and Manpower Bureau;
- since June 1998, the VTC had put in place the following additional procedures to ensure the effective application of new technologies acquired:
 - (i) companies receiving grants for tailor-made courses were required to submit end-of-course assessment on the effectiveness of the courses and progress reports on the implementation of the new technology acquired within six months after the completion of training; and
 - (ii) course providers were required to submit end-of-course assessment on the effectiveness of the courses they delivered together with the views of the participants; and
- up to the end of August 1998, 30 follow-up visits had been made, 16 for tailor-made courses and 14 for overseas training courses.

32. The Committee wish to be kept informed of the outcome of the Working Group's overall strategic review and of further progress in the management of the various funding schemes.

33. **The provision of accommodation for government use** (Paragraphs 7.99 - 7.124 of P.A.C. Report No. 29). The Committee were informed that:

- the Government Property Agency (GPA) had successfully negotiated with the landlord for an early surrender of the six-year lease for the office space at Edinburgh Tower. The lease contract was terminated with effect from 31 October 1998. The departments concerned were being reprovisioned to newly vacated government-owned accommodation. The compensation payable to the landlord for early termination of the lease was \$4 million (i.e.

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including \$2.5 million for reinstatement of the premises and \$1.5 million in respect of rent free period for incoming tenant). According to the GPA, a rental saving for the early termination of the lease was \$6 million;

- the Home Affairs Department (HAD) had been working closely with the local community in promoting the use of community centre/community hall (CC/CH) facilities and was deploying additional staff in 1998-99 to enhance the management and operation of CC/CH; and
- the Working Group on Community Hall sites had completed a review of the existing 77 CC/CH sites and had been exploring with the GPA the redevelopment opportunities of some of these sites. For example, the HAD was working with the GPA on the redevelopment of the site currently occupied by the Kwun Tong Community Centre (KTCC) with a view to reprovisioning this CC in a proposed G/IC Complex at the Kai Nang Training Centre site which would also accommodate other community and welfare facilities. The KTCC site could then be released for other uses.

34. The Committee wish to be kept informed of further developments on the subject.

35. **Enforcement activities of the Field Audit Group** (Paragraphs 7.125 - 7.130 of P.A.C. Report No. 29). The Committee were informed that:

- the study on the feasibility of implementing self-assessment in Hong Kong was in progress. The subject of self-assessment was also covered by the review on the Inland Revenue Department (IRD)'s information systems strategy being conducted with a view to drawing up an information systems strategy plan to satisfy its current and future business needs; and
- the IRD continued to monitor the compliance performance of tax representatives. In the quarter ended 30 September 1998, the department completed audit/investigation work in respect of five tax representatives. From time to time, the IRD identified suitable cases for audit from taxpayers represented by those tax representatives who were suspected of aiding and abetting their clients to evade tax.

36. The Committee wish to be kept informed of further development on the study on the feasibility of implementing self-assessment in Hong Kong.

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37. **The grant of hotel concessions by the Building Authority** (Paragraphs 8.1 - 8.9 of P.A.C. Report No. 29). The Committee were informed that:

- since July 1998, the Buildings Department had put in place a system whereby the Home Affairs Department, which was the hotel licensing authority, would notify the Buildings Department of any misuse of concession areas so that the appropriate enforcement action could be taken in accordance with the current policy. Concurrently, the Planning, Environment and Lands Bureau made a submission to the Executive Council on the current policy of granting hotel concessions by the Building Authority. The bureau was reviewing the policy and associated procedures with a view to defining clearly the authority for granting the concessions and improving the enforcement of the conditions for the grant by introducing legislative amendments where necessary.

38. The Committee wish to be kept informed of the outcome of the Administration's review of the policy and procedures for the grant of hotel concessions and the progress of the legislative amendments.

39. **Urban Council public markets** (Paragraphs 10.1 - 10.14 of P.A.C. Report No. 29). The Committee were informed that:

- at its meeting held on 1 April 1998, the Provisional Urban Council (PUC)'s Standing Committee of the Whole Council endorsed the response of the Director of Urban Services to the conclusions and recommendations made by the PAC on the Urban Council public markets;
- since September 1997, the Urban Services Department (USD) had resumed monthly open auctions of vacant market stalls. As at 31 July 1998, the PUC operated 61 public markets with a total of 10,148 market stalls. Of the 1,819 vacant market stalls in all the Urban Council public markets, 781 vacant market stalls were frozen to reduce the resiting commitment upon the redevelopment of respective public markets and 487 vacant market stalls were frozen to cater for additional space requirements or decantation arrangements for impending market improvement works. Hence, the number of vacant market stalls available for letting was 551 (5.4% of the total number of market stalls). The USD was considering various measures, for example, annexation of adjacent small market stalls to form larger market stalls and additional signage in the markets concerned, to encourage patronage. Where

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market stalls were genuinely surplus to requirements, the USD was exploring the feasibility of converting them to compatible non-market uses. The USD would seek the advice of the PUC on a review of the current operating target of 10 per cent vacancy rate for the Urban Council public market stalls;

- the number of licensed hawkers in the urban area had been reduced by 62%, from 23,038 in 1985 to 8,755 in 1998, and the number of unlicensed hawkers by 74%, from 16,300 in 1985 to 4,230 in 1998. The USD believed that it was unrealistic to expect all on-street hawkers to be eliminated. There were a number of complex social, geographical and economic reasons for this. For example, due to the recent downturn in the number of tourists, the USD had been asked to preserve certain hawkers areas such as Temple Street for tourists;
- the PUC had approved that the market stall tenancy agreements should include the definitions of “retail sale”, “bulk sale” and “wholesale”;
- the PUC allowed retail sale and bulk sale in conjunction with retail sale to be conducted at market stalls. The PUC did not allow wholesale nor did it allow bulk sale unless it was in conjunction with retail sale;
- the PUC had revised the clause governing non-trading in the market stall tenancy agreement. The new clause stipulated that the tenant should not, without the prior consent in writing of the PUC, cease to carry on business at the market stall for 14 days or more in a month;
- the PUC did not object in principle to the release of the Central Market site to the Government on condition that the redeveloped Central Market site would also provide new Urban Council facilities to meet the citizens’ need in the Central District. In October 1997, the PUC made its position clear to the Secretary for Planning, Environment and Lands. In May 1998, the Secretary for Planning, Environment and Lands requested the PUC to deliver vacant possession of the Central Market site to the Government on 31 May 1999. At its meeting held on 7 July 1998, the PUC’s Standing Committee of the Whole Council discussed the Secretary for Planning, Environment and Lands’ proposal regarding the reprovisioning of the Central Market. The PUC agreed to seek independent legal opinion on the legal status of the PUC in regard to the use of land. The PUC was still studying the feasibility of meeting the deadline of delivering vacant possession of the Central Market site;

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- the USD, in liaison with the Architectural Services Department, had reviewed and updated the design of the Urban Council public markets to meet the operational needs of market stallholders and to provide for better management and competitiveness of the Urban Council public markets. Recent examples were the proposal to retrofit air-conditioning systems to existing markets, adoption of no-end-wall market stall design to increase openness, provision of raised platform for display of goods, improvements to lighting levels and better signage;
- the PUC's approval was always sought on the need for, and scope of accommodation of, every new public market before the USD proceeded with detailed design proposals. The USD would also consult the District Boards and sought other local views on the scope of development and the schedules of accommodation for new public market projects during the planning stage as and when required by the PUC;
- the PUC had endorsed the USD's proposal to engage private research firms or local universities to conduct full viability studies on Urban Council public market projects. The USD was arranging a tendering exercise covering initially seven public market projects under planning and two existing markets with viability problems. Based on the experience gained, the USD would arrange a second tendering exercise to cover other public market projects; and
- the USD continuously informed the PUC all aspects of the USD's practices with respect to the Urban Council public markets. Where there was any proposal to change the current policies and practices, the USD would obtain the PUC's approval before implementation.

40. The Committee wish to be kept informed of further progress of delivering vacant possession of the Central Market site from the PUC back to the Government.

V. COMMITTEE PROCEEDINGS

Consideration of the Director of Audit's Reports tabled in the Legislative Council on 18 November 1998 As in previous years, the Committee did not consider it necessary to investigate in detail every observation contained in the Director of Audit's Reports. They therefore selected only those chapters in the Director of Audit's Report No. 31 which, in their view, referred to more serious irregularities or shortcomings. It is the investigation of those chapters which constitutes the bulk of this Report. The Committee expect, however, that the Government will take appropriate remedial action on other issues raised in the Director's Reports.

2. **Meetings** The Committee held 24 meetings, including 10 public hearings. At the public hearings, the Committee heard evidence from a total of 45 witnesses, including 8 Bureau Secretaries and 16 Heads of Department. The names of the principal witnesses are listed in *Appendix 3* to this Report. A copy of the Chairman's Introductory Remarks at the first public hearing on 3 December 1998 is in *Appendix 4*.

3. **The Arrangement of the Report** The evidence of the witnesses who appeared before the Committee and the Committee's specific conclusions and recommendations, based on the evidence and on their deliberations on the relevant chapters of the Director of Audit's Report, are set out in Chapters 1 - 10 below.

4. A verbatim transcript of the Committee's public proceedings will be placed in the Library of the Legislative Council for inspection by the public.

5. **Acknowledgements** The Committee wish to record their appreciation of the co-operative approach adopted by all the persons who were invited to give evidence. In addition, the Committee are grateful for the assistance and constructive advice given by the Secretary for the Treasury, the Legal Adviser and the Clerk. The Committee also wish to thank the Director of Audit for the objective and professional manner in which he has completed his Reports, and for the many services which he and his staff have rendered to the Committee throughout their deliberations.

**VI. OBSERVATIONS OF THE PUBLIC ACCOUNTS COMMITTEE
ON THE ACCOUNTS OF THE GOVERNMENT
FOR THE YEAR ENDED 31 MARCH 1998**

The Committee noted the Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 1998.

2. The Committee also noted that following the recommendation of the Public Accounts Committee, a variance analysis had been incorporated into the Director of Accounting Services' Report on the Accounts of the Government for the year ended 31 March 1998 (Accounts of the Government). Moreover, an accompanying note had been included in the General Revenue Account in respect of advances relating to expenditure on Vietnamese migrants. The note stated that the full recovery of the amount due from the United Nations High Commissioner for Refugees in the foreseeable future had become doubtful .

3. The Committee would like to record their appreciation of the efforts made by the Director of Audit and the Government departments/bureaux concerned for the improvements made to the reporting on the Accounts of the Government.

Chapter 1

Relocation of the General Post Office

The Committee noted that the Director of Audit had examined:

- the progress of the relocation of the General Post Office (GPO) to release the GPO site for redevelopment since the expiry of the site's building height restriction in 1985; and
- the decision-making process for selecting the option of relocating the Post Office Headquarters, the Post Office Box and Counter Sections, the Delivery Office and the Training Centre to Site A in Phase I of the Central District reclamation area.

2. Audit considered that due to a lack of proper planning and coordination among the parties concerned, the progress of the relocation of the GPO had been slow. According to paragraph 2 of the Audit Report, in May 1985 the then Director of Buildings and Lands pointed out that the building height restriction on the GPO site would expire at the end of May 1985 and the possibility of relocating the GPO elsewhere to facilitate the redevelopment of the site should be explored. The Committee noted that 13 years had passed, but the relocation of the GPO had not yet materialised. Having regard to the high development potential of the GPO site, the Committee were concerned whether a lack of proper planning and coordination had caused the delay.

3. **Mr LAI Kwok-ying, Government Property Administrator**, informed the Committee that the Government Property Agency (GPA) had been involved actively in the planning of redevelopment for under-utilised government sites. The Government had established a high-level coordinating body, the Property Strategy Group, to ensure that redevelopment plans would be implemented as far as possible. The Group was chaired by the Secretary for the Treasury and composed of representatives from the Planning, Environment and Lands Bureau, the Architectural Services Department, the Lands Department, the Planning Department, the Home Affairs Department and the GPA.

4. The Committee noted from paragraph 31 of the Audit Report that since 1986, the search for a suitable site for relocating the GPO had been restricted to Central District because of the Postmaster General's requirement to relocate the various sections of the GPO to the same building in Central District. The Committee asked why the Post Office Box and Counter Sections of the GPO had to be relocated to the immediate vicinity of the existing GPO site and, in the light of Audit observation that the average number of post office boxes rented out during the past five years had dropped by about ten per cent, whether

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the Post Office would consider re-assessing the demand for post office boxes in Central District. **Mr LUK Ping-chuen, Acting Postmaster General**, said that:

- it was essential that the postal facilities were able to meet the needs of the large number of office personnel and commercial offices in Central District. Existing post offices in Central District were located at Queen's Road Central, Wyndham Street, Harcourt Road and the Harbour Building. Major post office box facilities were available only in the existing GPO to serve the whole Central District. If the Post Office Box and Counter Sections were relocated far away from the existing GPO location, the distribution of such services in Central District would be affected and would cause inconvenience to users. While the Post Office had to ensure the maintenance of sufficient postal services in Central District, it would be flexible in considering options for the location of its various facilities;
- the demand for the post office box facility was linked to the changing economic development in Hong Kong. The minor decline in the demand for post office boxes could be partly attributed to the improvement in the mail delivery service in the past few years. A large number of commercial users in Central District still required the post office box facility. At present, there were 13,800 post office boxes in the GPO and the vacancy rate was only about nine to ten per cent. The provision of 15,800 post office boxes in the new GPO was just an estimate. The demand for this facility would be assessed in the light of Hong Kong's economic development in the coming years. The exact number of post office boxes to be provided would be determined closer to the opening of the new GPO;
- as the necessary funding could not be secured, the Post Office did not conduct a consultancy study on the relocation of the various facilities of the GPO including the demand for post office boxes. In fact, the position stated in the Audit Report had been overtaken by recent events in the relocation exercise, including:
 - (i) the Post Office was applying for a land lot in the old Hong Kong International Airport site in Kowloon and was considering transferring some of the functions in the existing GPO to this site;
 - (ii) the Post Office Box and Counter Sections would remain in Central District in order to continue to serve the business community; and

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- (iii) the Post Office was applying to transfer the Delivery Office to a government building in Sai Ying Pun.

5. Noting the above development, the Committee asked whether Site A in Phase I of the Central District reclamation area, which was the latest option cited in the Audit Report, was still being considered by the Post Office. The **Acting Postmaster General** pointed out that the earliest date of relocation to Site A was 2007. As suitable sites had been identified for the relocation of the Post Office Headquarters, the Sorting Centre, the Training Centre and the Delivery Office of the GPO, the Post Office was willing to consider any other site in Central District which was more readily available than Site A to accommodate the Post Office Box and Counter Sections.

6. **Mr R D Pope, Director of Lands**, confirmed that all the sites identified for the relocation of the various functions of the GPO had been agreed by the parties concerned and the government buildings located on those sites would be available to accommodate these facilities. The **Government Property Administrator** reiterated that:

- since the publication of the Audit Report, the Administration had adopted a different strategy. Instead of identifying a single site to house all the functions of the GPO, several sites, as set out by the Acting Postmaster General, had been considered to accommodate the different functions;
- the relocation of the Post Office Headquarters, the Training Centre and the Sorting Centre to the old Hong Kong International Airport site would depend on the progress of the South East Kowloon Development (SEKD). According to the present timetable, the target date for the relocation was 2005;
- to tie in with the above plan, the Delivery Office would also be relocated in 2005. Instead of Site A as mentioned in the Audit Report, the government building in Sai Ying Pun was being considered. The Administration had more confidence in this plan as it had better control of the site's development;
- if the above plans could be implemented as planned, the Post Office Box and Counter Sections would be relocated to an alternative site in Central District by 2005; and
- the Administration aimed to relocate the GPO by 2005. The key factor to the success of all of the above proposals was the finalisation of the SEKD.

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7. In view of the long-standing delay and the complexity of the relocation exercise, the Committee questioned whether the relevant policy bureau(x) had been and would be involved in overseeing the planning of the exercise and coordinating the work of the various departments. **Mr Stephen IP Shu-kwan, Secretary for Economic Services**, told the Committee that:

- the relocation of government offices fell under the jurisdiction of the Finance Bureau and the GPA. The Economic Services Bureau (ESB) was responsible for monitoring the performance of the Post Office, in particular the operation of the various postal services;
- as Secretary for Economic Services, he held regular monthly meetings with the Postmaster General and had been kept informed of developments of the relocation exercise. The Postmaster General had been co-operative and was willing to consider the various proposals put forward over the years. While the Postmaster General was in the best position to decide what was most desirable for the operation of the Post Office, the ESB was more concerned about the impact of the relocation and would ensure that the postal services would continue to operate smoothly to meet the public demand. The ESB would consider the cost-effectiveness of the various postal services when the proposed sites for their relocation were finalised; and
- as mentioned by the Government Property Administrator, the Property Strategy Group had assumed the role of coordinator for the relocation exercise. The ESB would be involved wherever necessary.

8. Having regard to the potential value of the existing GPO site and the past record of frequent changes in the planning process of the relocation exercise, the Committee were concerned whether the Property Strategy Group had set out any clear criteria and timetable for the redevelopment of the site. The **Government Property Administrator** assured the Committee that the Administration would try its best to implement the relocation plans by 2005 and that the problems that had surfaced previously would be properly addressed under the new mechanism. While abortive efforts would be avoided as far as possible, he could not guarantee that the issues would be resolved to total satisfaction, as there were factors, such as the progress of the SEKD, beyond the Administration's control. The target date of 2005 would be achieved only if the sites in question were available.

9. The **Secretary for Economic Services** supplemented that under the chairmanship of the Secretary for the Treasury, the Property Strategy Group had accorded a high priority

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to the redevelopment of the GPO site. It was also the most appropriate structure to monitor the implementation of relocation plans as it was well represented by the relevant government departments. As far as the Post Office was concerned, the relocation plan was expected to be implemented by 2005.

10. With reference to paragraph 14 of the Audit Report, the Committee noted that in November 1991, the Director of Buildings and Lands informed the Government Property Administrator that at the meeting of the then Public Works Department Conference held in July 1980, it was decided that, irrespective of whether there would be any objection from the bank, the erection of a multi-storey building on the Star Ferry Car Park site would be undesirable. Accordingly, the Conference objected in principle to the redevelopment of the Star Ferry Car Park site and decided that no further investigation into the feasibility of its redevelopment should be undertaken. According to Audit, the rationale for the decision was not recorded in the minutes of the Conference. The Committee considered it extraordinary that a major decision was taken without the rationale being properly recorded. Citing the case of the construction of an underpass instead of a fly-over outside Mandarin Oriental Hotel, the Committee asked whether there was any preferential treatment given to some influential private enterprises and whether there was any undertaking or agreement entered into with any of these enterprises on development plans in Central District.

11. In reply, the **Director of Lands** said that:

- he was not involved in the decision-making process in 1980 and could not provide any further information as to why the decision was taken. As the Star Ferry Car Park site had been classified as open space under the current Outline Zoning Plan, he could only assume that at that time, the Planning Department considered the site, which was located at the centre of Central District, to be more appropriately used as open space;
- he assured the Committee that there was no preferential treatment given to the major enterprises in Hong Kong. Depending on the planning for the area, every case was considered on its own merits. However, he would conduct a search of the relevant records and confirm his observation in writing; and
- as for the records of meetings, the Administration were more meticulous in recording and explaining decisions made at meetings nowadays. Notwithstanding that, he would pass on the Committee's concern to the Secretary of the Committee for Planning and Land Development to ensure that decisions were properly documented.

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12. The **Director of Lands** advised the Committee in his letter of 8 January 1999 in *Appendix 5* that he had asked for the leases of all the other existing buildings along the waterfront in Central District to be checked. He confirmed that no undertakings in relation to restrictions on building heights for developments/future developments in front of any of these buildings had ever been given.

13. On the same issue, the Committee asked why the then Government Property Administrator was only aware of the 1980 decision in 1991, i.e. five years after the proposal to relocate the GPO to the Star Ferry Car Park site was first raised, and why the decision had not been challenged at all. The **Government Property Administrator** said that:

- he was not in a position to answer the questions as he was not in the post at that time and had not studied the past records on the issue; and
- he could guarantee that a similar incident would not happen again as the Property Strategy Group, with representatives from the relevant government departments, would coordinate the discussion on development plans so that decisions could be made collectively.

14. In response to the Committee, the **Government Property Administrator**, in his letter dated 24 December 1998 in *Appendix 6*, advised that:

- until the formation of the GPA in April 1990, the responsibility for government accommodation rested with the then Secretary for Administrative Services and Information (SASI). He had checked all relevant files in the GPA but could not find any written records which might throw light on the rationale for the decision made by the Public Works Department Conference in July 1980; and
- as regards the private company's proposal to redevelop the Star Ferry Car Park site as mentioned in paragraph 10 of the Audit Report, the available records in the GPA showed that the then SASI was not informed of such proposal. It was in 1990 that the Postmaster General advised the GPA of a proposal to re-provision the GPO to the Star Ferry Car Park site, as suggested by the consultants of the Central and Wanchai Feasibility Study. The GPA was only advised of the 1980 decision taken by the Public Works Department Conference by the Lands Department in November 1991. Accordingly, the GPA did not pursue further the Star Ferry Car Park site and continued its efforts to identify other suitable sites for the GPO.

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15. In the same letter, the Government Property Administrator provided additional information on the following aspects:

- whether any major criteria had been adopted by the Administration in the identification of suitable sites for relocating the GPO and whether any cost-benefit analysis had been conducted to assess the redevelopment of the GPO site;
- the current position of the SEKD; and
- the role of the ESB, being the policy bureau with overall responsibility for the operation of the GPO, in ensuring that the requirements of the GPO were justified.

16. The **Government Property Administrator** reiterated that in identifying suitable sites for relocating the GPO, the Postmaster General's operational requirements had always been the major criteria for consideration by the Administration. As regards the cost and benefit analysis, the GPA had from time to time assessed the redevelopment value of the GPO site which fluctuated according to prevailing market situations. As soon as the Postmaster General had agreed to the proposals to re-provision the Sorting Centre and the Post Office Headquarters to the proposed International Mail Centre at the old Hong Kong International Airport site and the Delivery Office to the proposed Fire Services Department Workshop in Sai Ying Pun, the GPA had worked out the rough estimates of the re-provisioning costs involved. Nevertheless, more accurate figures could only be assessed when all the accommodation requirements had been finalised.

17. The **Government Property Administrator** further said that as the old Hong Kong International Airport site formed a small part of the whole SEKD, its availability would depend on the implementation schedule of the SEKD as a whole. Following the gazettal of the proposed reclamation and the various land uses of the SEKD under the draft Kai Tak (North and South) Outline Zoning Plans (OZPs), the Planning Department was processing the objection cases with a view to submitting the plans to the Executive Council for approval in late 1999. On the assumption that the gazetted draft OZPs would be approved, that the proposed development projects would proceed in accordance with the various uses stipulated therein and that the funding proposals would be approved by the Finance Committee, the GPO facilities were expected to be relocated by 2005.

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18. On the role of the ESB in the relocation exercise, the **Government Property Administrator** informed the Committee that under the existing arrangement for relocation projects in general, the GPA would work closely with the policy bureau and the department concerned to sort out the accommodation needs of the department. In the event that a consensus could not be reached, the GPA would refer the matter to the Property Strategy Group which would take a decision. (A copy of the Terms of the Reference of the Property Strategy Group is attached in *Appendix 6*.) As far as the relocation of the GPO was concerned, there had been close liaison between the Post Office and the ESB.

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

- express dismay that although the Government Property Agency (GPA) is fully aware of the fact that the General Post Office (GPO) is occupying a prime site worth billions of dollars and has been operating for a long time at a high opportunity cost, the relocation of the GPO has not been given priority due to frequent changes made in the planning process and the absence of clearly established criteria which result in a lack of proper planning and coordination among the government departments concerned;
- note that the GPA's main responsibilities include:
 - (i) to optimise the full potential of all government sites,
 - (ii) to meet the Government's accommodation needs in an economical and cost-effective manner; and
 - (iii) to examine commercial opportunities within government estate;
- express serious concern that the GPA has not been effective in discharging its responsibilities and has failed to bring to the attention of more senior officials in the Administration the issues which have hindered the progress of the relocation of the GPO;
- express dismay that the then Director of Buildings and Lands had not promptly notified the GPA of the Public Works Department Conference(PWDC)'s decision against the redevelopment of the Star Ferry Car Park site in 1980;

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- express dismay that the GPA did not challenge the PWDC's decision which caused a five-year delay in the redevelopment of the GPO site, especially when:
 - (i) there was no relevant record which explained the rationale of the PWDC's decision; and
 - (ii) the Government had subsequently found no difficulty in considering the redevelopment of the same site;
- express concern that the Postmaster General has not critically assessed the Post Office's requirements for relocating the Post Office Headquarters, the Training Centre, the Post Office Box and Counter Sections and the Delivery Office of the GPO to Site A in the Central District;
- express concern that the Government Property Administrator and the Secretary for Economic Services have failed to critically scrutinise the justifications used by the Post Office for proposing to house its facilities in the same building and in the Central District;
- consider that the various GPO facilities should be separated and be expeditiously relocated to lower value areas;
- recommend that the Administration should:
 - (i) accord a higher priority to the redevelopment of the GPO site;
 - (ii) in addition to the operational requirements of the departments concerned, establish clear criteria and conduct cost-benefit analyses to assess the desirability of relocating government facilities occupying under-utilised government sites, so as to ensure the timely release of valuable government sites;
 - (iii) ensure that the selected site for the relocation of the government facilities is released on time; and
 - (iv) draw up a timetable for the redevelopment of the under-utilised government site when the need has been confirmed and should closely monitor the progress of the timetable drawn up;
- support the Secretary for the Treasury's decisions in 1992 and 1993 to reject

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the proposal of appointing a consultant to advise on the relocation of the GPO, and consider that the Post Office should undertake an in-house feasibility study for the relocation;

- express serious concern that the relocation of the Post Office Headquarters, the Sorting Centre and the Training Centre to the old Hong Kong International Airport site in Kowloon is highly uncertain and heavily dependent on the implementation schedule of the South East Kowloon Development (SEKD);
- in view of the repeated delays in the release of the GPO site, recommend that the Property Strategy Group should:
 - (i) take a proactive approach to ensure that the latest relocation exercise will be completed as scheduled, taking into account the cost-benefit analysis of the relocation and the obvious opportunity cost of not releasing the GPO site for redevelopment on time;
 - (ii) decide to relocate the various facilities of the GPO separately; and
 - (iii) closely monitor the progress to ensure that the relocation of the GPO's individual facilities will strictly follow the timetable drawn up;
- consider that, if there are any signs indicating that the implementation schedule of the SEKD will be delayed, the Property Strategy Group should immediately and actively identify alternative sites for the relocation of the GPO so as to ensure that the release of the GPO site will not be later than the original target date of 2005; and
- wish to be kept informed of the progress of the timetable set and the sites chosen for relocation of the GPO's individual facilities.

Chapter 2

Recoverability of the outstanding advances to the UNHCR

The Committee reviewed and examined:

- the arrangements made by the Government to charge costs incurred for the care and maintenance of asylum seekers from Vietnam to advance accounts;
- the recoverability of the outstanding amounts from the United Nations High Commissioner for Refugees (UNHCR);
- the actions which the Hong Kong Special Administrative Region (HKSAR) Government, the Central People's Government and the British Government had taken and could take to recover the outstanding amounts;
- the arrangements for funding the maintenance costs for Vietnamese refugees and illegal immigrants in Hong Kong after 6 January 1998; and
- the Administration's justifications for not accepting the Committee's proposals to define more clearly the power of the Financial Secretary for charging costs to advance accounts under section 20 of the Public Finance Ordinance (Cap 2).

2. The Committee noted from the Director of Audit's report that in 1988, the Hong Kong Government and the UNHCR reached a Statement of Understanding, in which it was stated that the UNHCR would continue to meet the costs incurred for the care and maintenance of all asylum seekers subject to the availability of funds. From 1 April 1989, the Hong Kong Government charged the reimbursable costs to advance accounts, pending the UNHCR's reimbursement. From 1989 to 1998, the UNHCR repaid only \$166.3 million (12.5%) of the total amount of \$1,328.3 million advanced by the Hong Kong Government. The reimbursement received from the UNHCR in 1998 was only \$3.9 million, representing a sharp decrease compared to reimbursements received in previous years. As at 31 March 1998, the amount of outstanding advances was \$1,162 million.

3. Against the above background, the Committee expressed their concern as to whether the outstanding advances could be recovered. For some time, the Committee had questioned whether the Government should exercise the power under section 20 of the Public Finance Ordinance to charge the maintenance costs to advance accounts or whether the Finance Committee should be approached for funding. The Committee noted that the Government made a submission to the Executive Council on 6 January 1998. The

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submission stated, inter alia, that:

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- if there was no reasonable prospect of recovery, the advance account arrangement could no longer be used and provisions would need to be made in the Draft Estimates; and
- if the UNHCR defaulted on the outstanding advances, the Administration would not be able to enforce repayment through legal means as the UNHCR had immunity under the International Organisations and Diplomatic Privileges Ordinance (Cap 190). Furthermore, the Statement of Understanding between the Hong Kong Government and the UNHCR stated that repayment was “subject to the availability of funds”.

4. In the light of the above, the Committee asked the Administration to confirm whether the Government had accepted that there was no prospect of recovering the outstanding amounts from the UNHCR. **Mrs Regina IP LAU Suk-ye, Secretary for Security**, said that on 6 January 1998, the Executive Council decided to stop the advance account arrangement and to charge expenditure incurred in respect of Vietnamese migrants to the relevant Government accounts. However, this did not mean that the Government would not try its best to recover the outstanding amounts. The change in the funding arrangements reflected, to a certain extent, the Government’s understanding of the difficulties associated with recovery.

5. The Committee asked whether the change in funding arrangements meant that the Administration had finally agreed that it was inappropriate to charge the maintenance costs to the advance accounts. **Miss Denise YUE Chung-ye, Secretary for the Treasury**, explained that:

- in deciding whether to exercise the power under section 20 of the Public Finance Ordinance, the Financial Secretary had to consider various factors and circumstances;
- at the time when the advance account arrangement was made, the Financial Secretary felt that the money would be recoverable from the UNHCR;
- in January 1998, the Financial Secretary had decided that it would no longer be appropriate to continue to use the advance account arrangement;
- however, it did not imply that the Administration had accepted that amounts outstanding were no longer recoverable; and

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- the new funding arrangements had no bearing on the accrued amounts. The Administration would continue to try its best to recover the \$1,162 million from the UNHCR.

6. The Committee enquired whether the Government would continue to seek repayment from the UNHCR in respect of expenditure incurred by the Correctional Services Department (CSD) for maintaining Vietnamese migrants from 7 January 1998 onwards. The **Secretary for the Treasury** explained that this was primarily a change in the accounting arrangement. If the money spent was no longer recoverable, then the amount should no longer be charged to advance accounts under section 20 of the Public Finance Ordinance. However, this did not mean that expenditures incurred under the subheads of the CSD could not be recovered from the UNHCR. The **Secretary for Security** added that:

- according to the Statement of Understanding between the Government and the UNHCR, the UNHCR was responsible for maintaining refugees and those screened out as non-refugees, i.e. all asylum seekers. The HKSAR Government would deal with illegal immigrants and would not seek repayment from the UNHCR with regard to expenditure incurred on them; and
- the HKSAR Government would continue to seek recovery of expenditure incurred on refugees still stranded in Hong Kong even though the amounts had been charged to the CSD's accounts.

7. The **Secretary for the Treasury** and **Ms Sally WONG Pik-ye**, **Deputy Secretary for Security**, said that the sums charged to the advance accounts covered daily necessities, food and clothing, but not accommodation and staff costs. Following the cessation of the advance account arrangement on 7 January 1998, these sums were no longer charged to those accounts. However, the amounts were still accounted for elsewhere and would be included in the total amount to be recovered from the UNHCR. In response to the Committee's enquiry about the arrangements for billing the UNHCR, the **Secretary for Security** undertook to provide the information in writing.

8. With reference to paragraph 34 of the Audit Report, the Committee noted that in April 1998, the Secretary for Security issued a reminder to the UNHCR asking for a letter of intent concerning the expenditure for 1997. However, no verbal or written response had been received. The Committee asked what had happened. The **Secretary for Security** said that the UNHCR had indicated that it had difficulties raising funds in the international

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community, but the HKSAR Government would continue to press for the recovery of the outstanding amounts.

9. The Committee invited the representative of the UNHCR in Hong Kong to refer to paragraph 28 of the Audit Report and to explain the UNHCR's position in respect of the following statement in the letter of 22 January 1998 from the High Commissioner for Refugees (High Commissioner) to the Chief Executive:

“In the absence of further funding prospects, this was the last reimbursement which the UNHCR could realistically foresee.”

10. **Mr Terence Pike, UNHCR Head of Sub-office in Hong Kong**, explained that:

- the UNHCR was experiencing extreme difficulty in keeping donors interested in providing further financial support for its programmes in Hong Kong. The High Commissioner's letter to the Chief Executive stated clearly that reimbursements to Hong Kong had always been subject to availability of funds from donor countries. Realistically, the UNHCR did not foresee any funding earmarked for Hong Kong. That was why the statement had been included in the High Commissioner's letter;
- the UNHCR had not written a letter of intent covering the expenditure incurred in 1997 because realistically, it did not foresee any future donations being earmarked for Hong Kong; and
- however, that did not mean that the UNHCR did not remain committed to raising funds. While the UNHCR had taken the position not to write the letter of intent, if any funds were earmarked for Hong Kong in future, they would be paid for reimbursing the outstanding amounts.

11. The **Secretary for Security** added that the Government would continue to ask the international community to earmark funds for Hong Kong. In fact, the Deputy Secretary for Security had made such a plea in Geneva recently. In this connection, the Committee asked what efforts the British Government and the Central People's Government had made in raising this issue in the international community. The **Secretary for Security** and the **Deputy Secretary for Security** said that:

- the Chinese Permanent Mission to Geneva indicated that it had raised this

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issue with the United Nations (UN). The Government also understood that the Ministry of Foreign Affairs had raised this with the UN representative in Beijing; and

- the HKSAR Government had also sought the support of the Ministry of Foreign Affairs Office in Hong Kong.

12. The Committee raised the question of the possibility of off-setting the outstanding amounts by deducting the membership fees or contributions which the Central People's Government would be making to the UN. The **Secretary for Security** said that:

- the HKSAR Government had raised this with the Ministry of Foreign Affairs. The view of the Ministry was that membership fees to the UN could not be so deducted to cover the outstanding advances. The Charter of the UN did not provide for membership fees to be used to off-set amounts owed by the UN. If such a step were to be taken, this had to be rectified by the UN General Assembly. The prospects of success would be very slim; and
- the Central People's Government could continue to exert pressure on the UNHCR by bringing up the matter regularly. However, the most important point was that there had to be donations.

13. Referring to paragraph 30(d) of the Audit Report, the Committee noted from the Security Bureau's submission to the Executive Council that the British Government's policy on aid was to relieve poverty and that Hong Kong would not qualify on this front. The Committee invited the Administration to elaborate. The **Secretary for Security** explained that the HKSAR Government had been asking the British Government to assist. The British Government's position was that if they provided aid to poor areas such as Vietnam, fewer migrants would leave the country and that would help Hong Kong indirectly. In this regard, the Committee asked whether there were still any Vietnamese migrants coming to Hong Kong. The Secretary for Security said that a few still came, but they were treated as illegal immigrants and were not screened. Those who wished to apply for refugee status would have to approach the UNHCR.

14. According to paragraph 40 of the Audit Report, Audit concluded that the Administration had not properly addressed the Public Accounts Committee's concerns raised in their Report No. 25 regarding section 20 of the Public Finance Ordinance. The Committee considered that it was possible to define more clearly the authority of the

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Financial Secretary as well as the meaning of “recoverable” in the section. The Administration was invited to respond to the Committee’s proposal that the Public Finance Ordinance should be amended to provide that advance accounts should only be used if the amount had been acknowledged by the debtor, was legally enforceable, had a pre-arranged schedule of repayment and was capable of being recovered within a period of time. The power under section 20 should only be invoked if these criteria were fulfilled.

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

- the Administration’s response had already been stated clearly in paragraph 43 of the Audit Report;
- some of the proposed criteria were unrealistic. For example, if the Government had to undertake urgent slope stabilisation works or to remove dangerous buildings or structures on public safety grounds, it was often not possible to get the debtors to acknowledge liability. There were often disputes as to where responsibilities lay. If the Government had to identify the debtor and conclude an agreement, the urgent safety works might not be carried out in time. Likewise, it would be difficult to have a pre-arranged schedule for repayment; and
- the Public Finance Ordinance did not specify that advance could only be made if the debt was legally enforceable. Similarly, the Ordinance did not prescribe that the amounts should be recovered within a reasonable period of time. The present modus operandi was satisfactory. The Administration did not consider that there was a need to fetter or restrict the discretion conferred on the Financial Secretary by the Public Finance Ordinance.

16. The Committee pointed out that, even if the debtor could not be identified, urgent works could still be carried out with the approval of the Finance Committee. The **Secretary for the Treasury** said that in most instances, the Administration would approach the Finance Committee for funding approval. But section 20 of the Public Finance Ordinance was designed to cover special circumstances. The Financial Secretary’s power would only be invoked if the Financial Secretary was sure that the amount was recoverable.

17. Having regard to the statement made by the Secretary for the Treasury in paragraph 43 of the Audit Report that advance accounts, despite their varied nature, were generally cleared within a short period of time, the Committee asked whether it was normal

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to have an advance account lasting for over ten years. The Committee also asked whether the Government had learned a lesson from this or whether it refused to admit that a wrong judgement had been made. The **Secretary for the Treasury** said that the nature of advance accounts varied. In most circumstances, they could be cleared within a short period. It was not normal for the period to last beyond ten years. But section 20 of the Public Finance Ordinance did not prescribe that the debt had to be recovered within a certain period. However, if one examined the reimbursements by the UNHCR throughout the period, during the fourth and fifth years, substantial amounts of \$20 million or more were recovered. The Financial Secretary had made the decision to continue the advance accounts in the light of circumstances prevailing at the time.

18. The Committee asked the Administration to provide the amount of advances incurred under section 20 of the Public Finance Ordinance in the last three years.

19. In her letter of 8 December 1998 in *Appendix 7*, the **Secretary for the Treasury** provided the Committee with the details of advances paid under the authority of warrants issued under section 20 of the Public Finance Ordinance over the last three fiscal years.

20. As requested by the Committee, the Secretary for Security provided further information on the financial arrangements for the Vietnamese refugees, migrants and illegal immigrants and on the recovery of the outstanding advances from the UNHCR. In her letter of 15 December 1998 in *Appendix 8*, the **Secretary for Security** said that:

- since 7 January 1998, the expenses for the care and maintenance of the remaining five Vietnamese migrants who were in detention had been charged to the appropriate departmental votes. No separate account was kept for these expenses which were estimated to be a few thousand dollars a month. The cumulative expenses since 7 January 1998 should not exceed \$100,000. The Administration did not expect to be able to recover these costs from the UNHCR;
- the UNHCR continued to be responsible for the expenses incurred for the care and maintenance of approximately 1,030 Vietnamese refugees;
- most of the 640 Vietnamese migrants who were screened out as non-refugees were released on recognisance and were self-supporting. The Government was making a financial contribution to cover the expenditure incurred for these migrants at the Pillar Point Vietnamese Refugee Centre as one of the

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measures adopted in the package for ending the port of first asylum policy;

- all illegal immigrants from Vietnam on or after 9 January 1998 were detained and repatriated. The costs in this respect were borne entirely by the Government;
- in April 1998, the Secretary for Security had asked the UNHCR for the Letter of Intent covering the expenditure for the period from 1 January 1997 to 6 January 1998; and
- the Administration would continue to urge the UNHCR to make every effort to raise funds from the international community in order to make early and full repayment of outstanding advances of approximately \$1,162 million incurred up to 6 January 1998 in respect of the Vietnamese migrants in detention.

21. The **Secretary for Security** further explained in her letter of 4 January 1999 in *Appendix 9* that:

- the charging of the expenses for the care and maintenance of the remaining Vietnamese migrants under detention to Government expenditure upon the discontinuation of the advance account arrangement from 7 January 1998 was purely an accounting procedure. It did not represent a change of the policy that the migrants concerned remained the responsibility of the UNHCR in accordance with the 1988 Statement of Understanding; and
- the charging of the expenses to government expenditure and the recoverability of the money involved were two separate issues. The change in the funding arrangement was entirely without prejudice to the right of the HKSAR Government to recover the expenses from the UNHCR who remained fully liable for the outstanding amounts.

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

- consider that the Administration should have stopped using the advance account arrangement in 1996 when the Public Accounts Committee (PAC) pointed out that:
 - (i) there had been significant changes in the circumstances since the

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Financial Secretary first invoked section 20 of the Public Finance Ordinance and approved the charging of the advance accounts in 1989; and

- (ii) the UNHCR's track record of repayment had suggested that, even if the outstanding advances had not become a bad debt, it should at best be described as a doubtful debt;
- acknowledge the Secretary for Security's statement that stopping the use of the advance account mechanism and charging all relevant expenditure to the Correctional Services Department's accounts since 7 January 1998 would not affect the Administration's position to pursue the UNHCR for the full recovery of the outstanding amounts;
- consider that the use of the advance account mechanism is tantamount to bypassing the normal procedures for seeking funding approval from the Legislative Council, especially after the PAC had raised this concern;
- express dismay that it had taken such an unreasonably long time for the Administration to come to the conclusion that the advance account mechanism was to be discontinued, despite the clear reminder of the PAC;
- recommend that the Administration should continue:
 - (i) to press the UNHCR to fully repay the outstanding amounts to the Hong Kong Special Administrative Region (HKSAR) as soon as possible;
 - (ii) to seek the assistance of the Central People's Government and the British Government to press the UNHCR to repay the outstanding amounts to the HKSAR; and
 - (iii) to urge the Central People's Government and the British Government to appeal to the international community to make donations to the UNHCR earmarked for reimbursing the HKSAR for the outstanding amounts;
- consider that in view of rising public expectation on the accountability of the Government, section 20 of the Public Finance Ordinance, which vests the Financial Secretary with unchecked authority and discretion in the use of the advance account mechanism, is outdated;
- urge the Administration to review the financial accounting practices to

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enhance timely disclosure of information for scrutiny by legislators; and

- recommend that:
 - (i) the Administration should include in the Annual Accounts of the Government a breakdown with detailed justifications of exceptionally material items of expenditure which have been charged to the advance accounts; and
 - (ii) for those items the cumulative amount of which exceeds the normal limits of delegated authority specified by the Finance Committee, the Administration should submit separate information papers to the Finance Committee.

Chapter 3

The refuse collection service of the Regional Services Department

The Committee noted that the Director of Audit, in reviewing the efficiency of the refuse collection service provided by the Regional Services Department (RSD), had the following findings:

- the existence of the task and finish habit of the RSD's refuse collection teams i.e. members of the teams habitually left their places of work as soon as they had finished their scheduled tasks;
- the number of refuse collection teams and their related refuse collection vehicles exceeded the requirement by about 30 per cent;
- contractors could provide comparable refuse collection service at a much lower cost than that of the RSD; and
- the RSD's decision to set the target of contracting out 50 per cent of its refuse collection service was not made on the basis of a detailed study.

2. At the public hearing, **Mrs Helen YU Lai Ching-ping, Director of Regional Services**, made an opening statement and said that:

- the Provisional Regional Council (Pro RC) and the RSD had responded positively to the Audit Report and accepted the recommendations therein;
- the RSD had actively followed up the various proposals, and hoped that the quality of its refuse collection service could be improved and the efficiency of the service could be enhanced;
- there was a historical background to the task and finish habit of the refuse collection teams. In the early 1980s, the refuse collection facilities and road networks were not as good as they were today. The landfills also closed earlier in the day. The team members had to finish collecting all the refuse before the closing time of the landfills. The major consideration was to improve the environment;
- over the years, the refuse collection facilities, road networks and environmental hygiene had improved; and the closing hours of the landfills had also been extended. It was considered not appropriate to retain the task and finish practice. In 1993, 1996, 1997 and 1998 i.e. before the Audit review, the RSD had already started reviewing the practice with a view to

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enhancing the cost-effectiveness of the refuse collection service. In 1993,

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part of the service was contracted out. The exercise was carried out in two different ways: first by contracting out the operation of refuse collection routes, and secondly by contracting out the refuse collection service provided at refuse collection points;

- the RSD was looking ahead. It had adopted a positive approach in following up the Audit recommendations and would also take the initiative to identify solutions; and
- since the Audit review, the RSD had proposed to set up a mechanism to monitor the various Pro RC services including refuse collection. This had been endorsed by the Pro RC. A further Audit review on the services in 18 months' time would be welcomed.

3. Referring to the question of over-provision of refuse collection teams and their related refuse collection vehicles by about 30 per cent and the Audit observation that the time standards set for the refuse collection teams might be too generous, the Committee asked whether the RSD had contemplated any improvement measures. The **Director of Regional Services** and **Ms Rhonda LO, Acting Assistant Director of Regional Services (Environmental Health Services)**, said that:

- from April to July 1998, the RSD conducted a review of the time standards for the refuse collection service. The data had been used to revise the refuse collection route schedules;
- in revising the refuse collection route schedules, the RSD would take into account the most up-to-date information on the population along the routes, the daily production of refuse per person and the density of the refuse; and
- in order to effectively monitor the performance of the refuse collection teams, the RSD would study the latest technology and modern equipment available for the management of its fleet of refuse collection vehicles. Front-line supervisors had also closely monitored the refuse collection points and kept records of the arrival and departure times of the vehicles.

4. The **Director of Regional Services** also informed the Committee that:

- as a result of the review, the RSD would be able to delete 23 refuse collection

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teams i.e. from 143 to 120. This would help reduce the human and other resources required;

- regarding the Audit conclusion that the RSD's refuse collection teams and their related refuse collection vehicles could be reduced by about 30 per cent, the RSD was of the view that this conclusion was based on some unrepresentative data and that some practical considerations had not been taken into account; and
- the RSD would use the 30 per cent as a target. So long as staff productivity and the cost-effectiveness of the service could be improved, the RSD would try to maximise savings.

5. In response to the Committee's concern, the **Director of Regional Services** and the **Acting Assistant Director of Regional Services (Environmental Health Services)** said that:

- when the refuse collection teams were under observation, they tended to work more slowly because they had to follow each and every step of the stipulated procedures;
- the RSD's Management Services Division had conducted 3,800 observations at 470 refuse collection points, covering eight types of refuse collection vehicles. As a result, the time standards had been revised upwards by 20 per cent;
- the time standards were only applicable to the refuse collection procedures i.e. the tipping of the refuse from refuse bins onto the vehicles. This only amounted to 9.28 per cent of the total time required for the whole refuse collection process;
- in the past, the RSD had used the estimate of the Environmental Protection Department (EPD) in respect of the daily production of refuse per person to calculate the time standards. As the EPD might have overestimated the refuse amount, the RSD was using the actual amount of refuse collected and the actual population figures of the previous year to calculate the time standards; and
- the RSD was concerned about the overloading of refuse collection vehicles

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and would try to deal with this problem properly.

6. The Committee noted that the task and finish practice had been stemmed since June 1998 and that 23 refuse collection teams would be deleted. While these developments were welcomed, the Committee considered that the practice should have been stemmed earlier, and taxpayers' money would not have been wasted. The Committee asked whether the RSD had taken any action before the Audit review to address the issues raised. The **Director of Regional Services** and **Mr Fred TING Fook-cheung, Deputy Director of Regional Services**, said that:

- as set out in the Audit Report, the refuse collection service had been kept under constant review since the establishment of the RSD in 1986. In fact, improvement measures were implemented in 1993, 1997 and 1998;
- the refuse collection service and the provision of public toilets were the two priority areas under the newly-established monitoring system because they were closely related to the quality of life of the general public;
- the Audit review commenced in May 1996. The RSD welcomed the review and had provided Audit with all the necessary information including reports of past studies on the service. As soon as the Audit recommendations were known and with the endorsement of the Pro RC, the RSD had embarked on implementing improvement measures; and
- one of the measures taken was to contract out part of the refuse collection service. This would be further extended.

7. **Mr LAI Kwok-tung, Assistant Director of Regional Services (Environmental Health Policy)** also said that:

- the 20 per cent surplus capacity was identified during the time standards review. In the past, this was built into the refuse collection route schedules to cater for unforeseen demand. This spare capacity had now been removed. The RSD had accepted the Audit recommendation that excess refuse should be handled by deploying additional teams or asking the teams to work overtime;
- the reduction of 23 teams was made possible also because an adjustment had

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been made to the speed standard of the refuse collection vehicles. They were allowed to go beyond 50 kilometres per hour; and

- after the review, the daily workload of the refuse collection teams was determined according to the new time standards. If the teams could not finish their work at the finishing time, other teams would be deployed to take over the work. The performance of the teams would also be closely monitored.

8. The **Acting Assistant Director of Regional Services (Environmental Health Services)** added that -

- in May 1997, the RSD upgraded the Transport Management Information System so that more information on the operation of the refuse collection vehicles would be generated for management purpose.

9. The Committee asked whether the RSD had reduced the number of staff as well as refuse collection vehicles after the review. The **Director of Regional Services** informed the Committee that 30 drivers and 61 workmen had been cut, resulting in a saving of \$20 million in staff costs. The RSD had also stopped purchasing new refuse collection vehicles and \$29 million was saved by cancelling the purchase of 25 vehicles. The **Deputy Director of Regional Services** further said that the surplus staff from the 23 teams had been deployed to resume the service of clearing the refuse collection bins and cleaning the streets in eight New Territories districts after 3:30 pm. Money was saved because there was no need to contract out this service.

10. With reference to a paper submitted to the Environmental Hygiene Select Committee of the Pro RC, the Committee noted that the RSD had implemented the practice of recording the arrival and departure times of the refuse collection teams. The Committee asked whether, according to these records, the task and finish practice had actually been stemmed. The Committee also asked whether staff morale and the efficiency of the refuse collection teams had been affected, as the task and finish practice had served to motivate the staff to complete their scheduled work on time and as there had been strong resistance from the staff side. The **Director of Regional Services** and the **Acting Assistant Director of Regional Services** said that:

- the RSD had got full support from the staff side to stem the task and finish practice. The team members had not resisted the new working arrangements.

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However, they were resistant to other arrangements such as the contracting out of the service and the streamlining of operations;

- the principle adopted by the RSD was that no staff should be made redundant. The RSD would continue to streamline its operations and to contract out its services, but it would be implemented step by step;
- the new arrangement of recording the arrival and departure times of the refuse collection teams at the refuse collection points was only implemented on 15 July 1998. The teams were now required to sign the log books at the refuse collection points. Front-line supervisors would also visit these collection points every day to ensure that all the refuse was cleared. Disciplinary action would be taken if any discrepancy was identified; and
- random checks were also conducted by two special teams of inspectors who were responsible for monitoring the performance of the refuse collection teams.

11. Upon request, the **Director of Regional Services**, in her letter of 16 December 1998 in *Appendix 10*, provided the Committee with detailed information on the internal monitoring system.

12. With regard to the target for the contracting out of the refuse collection service, the Committee noted that the Director of Regional Services had said in paragraph 71(h) of the Audit Report that the 50 per cent target was derived from a practical and realistic hypothesis. The Committee asked what this hypothesis was and whether the percentage was derived from any detailed study. The **Assistant Director of Regional Services (Environmental Health Policy)** said that as the choice of efficient refuse collection contractors was very limited, the market might not be able to take over more than 50 per cent of the service even if it was contracted out. Another consideration was that if for some reasons, all the refuse collection contractors failed to perform satisfactory service, the RSD's in-house fleet could still provide the emergency service by working double-shift. The **Director of Regional Services** added that the Pro RC had in fact asked the RSD to conduct a study on this matter. She would provide the Committee with more information in writing.

13. In response to the Committee's question as to when the 50 per cent would be

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achieved, the **Acting Assistant Director of Regional Services** said that:

- there were three guiding principles for the contracting out of the refuse collection service: cost-effectiveness, maintenance of service standards and no staff redundancy. As arrangements had to be made to redeploy the surplus staff to other government departments, the RSD had waited until 1997-98 to embark on further contracting out; and
- taking into account the rate of natural wastage, the RSD estimated that the 50 per cent target would be achieved by 2001.

14. In her letter of 16 December 1998, the **Director of Regional Services** also advised the Committee that the RSD had achieved some 24 per cent of the target. Action was taken in the meantime to study in depth the feasibility of increasing to beyond 50 per cent the extent of contracting out the refuse collection service.

15. As regards the staff reaction to the contracting out of the refuse collection service, the **Deputy Director of Regional Services** pointed out that the staff side was very worried about this development because there would be difficulties in redeploying some of the staff members to other government departments. One example was the post of special driver which was only available in two government departments i.e. the RSD and the Urban Services Department. This would be one of the factors to be taken into account in contracting out the service.

16. The Committee were concerned as to whether there would be any problem in redeploying the surplus staff. The **Director of Regional Services** said that the Administration as a whole would be involved in making arrangements for the redeployment of the surplus staff. If possible, the staff would be transferred to a similar post in another government department. If that could not be done, then arrangement would be made for them to take up a similar type of work with the same salary scale and on the same salary point. Otherwise, they would have to follow their own scale until retirement and the post would then be deleted.

17. With reference to paragraph 73(c) of the Audit Report, the Committee noted that the Pro RC had recommended that the RSD should make a comparison between the performance of the contractors and that of its staff and that the RSD should also conduct a

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study to ascertain the quality of the service provided by contractors. In this connection, the Committee asked whether the RSD would consider adopting a more incentive-led approach in order to encourage its staff to perform. The **Director of Regional Services** and the **Deputy Director of Regional Services** said that:

- it was hoped that healthy competition could be created by contracting out part of the service;
- the staff cost per Workman II was about \$10,800 per month. Contractors were paying their workers about \$6,000 per month. That was why their service was cheaper;
- the RSD would also try to expedite the process of contracting out its service. But better quality of service by contractors vis-a-vis the RSD should not be assumed. There was one example in which 40 per cent of a payment for cleaning a Pro RC market had to be deducted because the contractor had failed to provide the required service; and
- the RSD had just started to conduct a preliminary study on the performance of contractors and more information would be available at a later stage.

18. After the public hearing, the Committee invited the Chairman of the Pro RC to provide further information on the actions taken by the former Regional Council and the Pro RC to address the various issues relating to the refuse collection service before they were raised by Audit and the results of such actions. The reply of **Mr LAU Wong-fat, Chairman, Provisional Regional Council**, dated 22 December 1998 is attached in *Appendix 11*. In brief, the Chairman pointed out that:

- the Finance and Administration Select Committee of the Pro RC had approved the RSD's proposal to set up a Quality Audit Team, which was tasked to make surprise visits. This establishment would enable the senior management to get direct information on front-line services and exercise firmer control over district operations, thus enhancing accountability among front-line supervisors;
- the Management Services Division, an in-house audit/review agency of the RSD, had conducted various reviews on the time standards of the refuse collection teams prior to the Audit review;

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- since 1986, the Environmental Hygiene Select Committee and the District Committees of the Pro RC had constantly monitored the refuse collection service. Apart from receiving reports on complaints, these committees also considered from time to time various issues relating to the effectiveness of the refuse collection teams; the operation and maintenance of the refuse collection vehicles; the need to improve refuse collection service for remote areas; and the optimal level for contracting out refuse collection service;
- the Pro RC had requested the RSD to implement as early as possible the target of 50 per cent of the refuse collection service. Nevertheless, it was fully aware of the difficulties involved such as staff redundancy problem, the availability of suitable waste management contractors, the need to maintain adequate staff and vehicles as contingencies;
- at present, 24 per cent of the service had been contracted out. This would be reviewed from time to time, depending on how much assistance the RSD could get to resolve the redundancy problem; and
- the primary concern of the Pro RC was the satisfaction level of the service delivered. The task and finish practice and excess capacity of the refuse collection teams were strictly operational matters which should be dealt with by the RSD. The Pro RC was fully aware of the various improvement measures taken by the RSD over the past year to strengthen the management and supervision of both front-line personnel and contractors. The Pro RC was confident that the RSD was able and would continue to deliver quality service as pledged in response to the Audit Report.

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

- express dismay that the Regional Services Department(RSD)'s refuse collection teams and their related refuse collection vehicles had about 30 per cent surplus capacity;
- express astonishment that the RSD was able to delete 23 refuse collection teams and stop purchasing 25 refuse collection vehicles, thus saving a total of \$49 million, immediately following the Audit review;
- express serious dissatisfaction and disappointment that the RSD had failed to stem the task and finish practice until June 1998 and that the RSD had not

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taken fully into account the following changes to monitor the work of its refuse collection teams:

- (i) the actual weight of refuse collected;
 - (ii) models of the refuse collection vehicles being used;
 - (iii) the location of the disposal sites;
 - (iv) the road network; and
 - (v) the modus operandi of refuse collection;
- regret that the then Regional Council and the Provisional Regional Council had failed to closely monitor the refuse collection service of the RSD by not taking adequate and early remedial action;
 - note that the RSD is taking measures to ensure that no excess capacity exists and that all the team members are fully employed;
 - urge the RSD to closely monitor the measures taken and to assess whether they are effective;
 - urge the RSD to plan ahead and liaise closely with the Secretary for the Civil Service so as to reduce the lead time for transferring surplus staff back to the civil service;
 - urge the Secretary for the Civil Service to provide support and assistance to the RSD to ensure that it can manage its workforce with maximum flexibility;
 - recommend that, when the target of contracting out 50 per cent of the RSD's refuse collection service is reviewed, consideration of potential saving to public funds should be given a higher priority without compromising the quality of the service; and
 - wish to be kept informed of the progress of the contracting out of the refuse collection service.

Chapter 4

Footbridge connections between five commercial buildings in the Central District

The Committee held a public hearing on 10 December 1998 to receive evidence on this subject from the Acting Secretary for Planning, Environment and Lands, Director of Lands, Director of Buildings and Director of Planning. In order to obtain a comprehensive understanding of the issues relevant to the delay in the construction of Footbridge A in Central District, the Committee requested the witnesses to provide additional information detailing the Administration's previous discussions with the parties concerned and the follow-up actions taken in relation to the undertaking given by the owners of the Building I site to construct Footbridge A.

2. The Committee received the required information on 16 January 1999. In view of the complexity of the issues involved and the need to examine the evidence in detail, the Committee decided to defer a full report on this subject.

3. In the meantime, the Committee will consider the issues relating to the delays in the provision of other footbridges i.e. Footbridges B, C, D and E and will decide whether a further public hearing is necessary.

Chapter 5

Management of electricity consumption by the Government

The Committee noted the Director of Audit's review on the management of electricity consumption by the Government. According to paragraph 6 of the Audit Report, the Government considered that it was essential to take an active approach to the efficient use of energy. In February 1991, the Administration proposed and the Executive Council approved that:

- early cost-effective action should be taken to increase the efficiency with which energy was used in Hong Kong, having regard to Hong Kong's standing as a modern commercial and industrial city; and
- an advisory committee should be set up to advise the Government on the appropriate action to be taken to maximise energy efficiency within Hong Kong.

Following the Executive Council's decision, the following mechanism was set up:

- the Energy Advisory Committee (formerly the Energy Efficiency Advisory Committee) to advise the Government on energy policy;
- the Energy Management Committee (EMC) under the Electrical and Mechanical Services Department (EMSD) to formulate an energy management programme and to carry out energy audits; and
- the Energy Efficiency Office of the EMSD to co-ordinate and monitor the energy management programme and to provide support to the EMC and the Planning, Environment and Lands Bureau (PELB) in developing energy efficiency and conservation programmes.

The Government's energy management programme consisted of the Green Manager Scheme (GMS), the EMSD's Energy Audit Programme and Energy Management Opportunities Implementation Programme.

2. In the light of the above development, the Committee asked why the Government's energy management programme was still ineffective and only limited results had been achieved. The Committee also asked whether the Administration would re-organise the existing system to provide more incentives and to exert more pressure on the parties concerned, so that better results in energy management could be achieved. **Mr Patrick LAU Lai-chiu, Acting Secretary for Planning, Environment and Lands**, said that:

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- the Administration's approach to environmental protection and in particular, energy efficiency had always been consistent. It was committed to promoting energy efficiency;
- the GMS had been implemented for five years. The Administration agreed with Audit that there was still room for improvement. A review on the GMS was being conducted;
- concrete measures for promoting the efficient use of energy had been incorporated in the Enhanced Productivity Programme to be implemented within the civil service;
- all Heads of Department would be required to publish, by the first quarter of 2000, an environmental report on the implementation of energy-saving measures in 1999 and their impact on environmental protection;
- the Heads of Department had also been given an incentive to save energy. If savings on electricity tariffs could be identified in the recurrent expenditure, these savings could be retained by the departments and redeployed for other purposes; and
- the Administration was also considering the possibility of a trial scheme whereby certain departments would be given a one-line vote. If these departments could save money with respect to electricity tariffs, they could keep the savings for other purposes.

3. With reference to Table 2 in the Audit Report, the Committee asked whether the Administration had set a target for 1999 in respect of savings in electricity expenditure and whether the departments with high electricity expenditure would be required to set a target for themselves. The **Acting Secretary for Planning, Environment and Lands** said that:

- it would not be realistic for the PELB to set a rigid target for savings in electricity expenditure as departments had variable requirements and demand for electricity consumption; and
- as regards targets for individual departments, the Administration would consider this proposal together with the relevant Heads of Department.

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4. In response to the Committee's question about the feasibility of setting a target for individual departments, **Mr HUI Ki-on, Commissioner of Police**, said that the proposal was feasible. **Mr HU Man-shiu, Director of Water Supplies**, said that he was prepared to discuss with the Secretary for Planning, Environment and Lands as to how savings could be achieved. However, the pattern of electricity consumption of the Water Supplies Department (WSD) was different from that of the other government departments. The WSD spent about \$400 million per annum on electricity tariffs, 95 per cent of which was related to the use of electricity for operating waterworks installations. Only 5 per cent of the department's expenditure was related to electricity consumption in office buildings. It was possible to set a target in respect of electricity consumption in these office buildings.

5. With regard to the Audit observation that the Energy Managers under the GMS had failed to perform their duties properly, the Committee asked whether these Managers had been provided with any training and how their performance was evaluated. The **Acting Secretary for Planning, Environment and Lands** and **Mr Steve Barclay, Principal Assistant Secretary (Environment)**, said that:

- there was a Green Manager for every government department and bureau and an Energy Manager for every joint-user government office buildings. In all cases, administrative staff were appointed. As these Managers were accountable to the Heads of Department who were in the best position to decide the rank for the post and to appoint the most suitable person to assume the duties;
- there was a reporting system whereby the Green Managers and Energy Managers were required to forward relevant data, for example, on electricity and paper consumption, to the PELB annually. This system was being reviewed, with a view to increasing its transparency;
- the Heads of Department were to decide whether their Green Managers and Energy Managers should be given more time for discharging their duties and how the duties could be discharged more effectively;
- when the GMS was introduced in 1994, Green Managers and Energy Managers were only required to introduce simple housekeeping measures for environmental protection such as saving and recycling paper. In 1996 and 1997, they were given training in environmental audit so that they could introduce their own environmental management programmes. They would be provided with additional training to ensure that they could discharge their

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duties more effectively;

- the Administration hoped to introduce in 2000 a white paper on the environment with a theme on sustainable development; and
- it was hoped that the implementation of the various measures would encourage all government departments and the community at large to give due consideration to environmental protection issues.

6. On the appointment of Green Managers in the Hong Kong Police Force (Police Force) and the WSD, the **Commissioner of Police** informed the Committee that a Chief Executive Officer had assumed the additional duty of Green Manager in the Police Force. He considered that there was room for improvement for the GMS and he had to consider whether a full-time Green Manager should be appointed or whether a committee should be set up to work with the Green Manager. The **Director of Water Supplies** said that:

- the appointment of Green Managers in the WSD was similar to that in the Police Force; and
- the WSD had adopted a different approach for energy management. The existing system involved various levels of the engineering staff throughout the entire process from the planning and design stage to the operation and maintenance of waterworks installations. Energy efficiency had always been an important consideration.

7. The Committee were concerned about the effectiveness of the Green Managers and asked whether they were provided with guidelines to carry out their duties. The **Acting Secretary for Planning, Environment and Lands** said that the PELB had issued some guidelines to the Green Managers. He confirmed in his letter of 24 December 1998 that the "Guideline for Green Managers" had been issued on 19 December 1995.

8. The **Acting Secretary for Planning, Environment and Lands** further said that while the GMS was being reviewed and improvement measures were to be formulated, the Administration had planned to conduct energy audits on 70 government buildings between now and 2001.

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9. The Committee noted that according to paragraph 28(c) of the Audit Report, there were about 1,300 government buildings as at 30 June 1998. However, energy audits had been conducted only in 66 of these buildings between 1993 and 1997. In view of the fact that only 70 more energy audits were scheduled before 2001, the Committee asked whether the target set by the Administration was too low. The Committee also asked why the buildings of the WSD and the Police Force, the two departments with the highest electricity consumption, had not been included in the Energy Audit Programme. **The Acting Secretary for Planning, Environment and Lands** and **Mr Hugh B Phillipson, Director of Electrical and Mechanical Services**, said that:

- the buildings were selected according to a priority list which was reviewed annually. Large and complex buildings with good potential for energy savings were high on the list;
- among the 1,300 buildings, many were small with little potential for energy savings. This was the same with the newly-designed buildings;
- according to a preliminary estimate, 80 per cent of the potential savings could be achieved, if energy audits were conducted in 10 per cent of the 1,300 government buildings;
- there were about 130 police buildings. Most of them were small conventional buildings and the potential for energy savings was not high;
- energy audits would be conducted in six police buildings which were on the priority list. The audits would be completed by July 1999; and
- as for the WSD, the bulk of their potential energy savings was in the waterworks installations and not in their offices. That was why their office buildings had not been included in the Energy Audit Programme.

10. In response to the Committee's question as to whether the Administration was satisfied with the progress of the Energy Audit Programme, the **Acting Secretary for Planning, Environment and Lands** said that the Administration's view was that there was still room for improvement. However, the introduction of improvement measures would depend on whether the necessary resources were available. **Mrs Carrie LAM CHENG Yuet-ngor, Deputy Secretary for the Treasury**, confirmed that if a department or bureau wanted to launch an initiative which entailed recurrent expenditure, it had to make a bid to Government through the resource allocation exercise. However, this was not in line with

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the spirit of the Enhanced Productivity Programme and would not be supported. With regard to performance contracting, if recurrent expenditure was not required and if recurrent savings could be achieved, this would amount to investing to save and would be supported by Government.

11. In respect of the 70 buildings selected for energy audits, the Committee asked whether there was any document detailing the selection criteria. **Mr LAM Kam-kuen, Chief Engineer/Energy Efficiency**, said that the EMSD kept a record on the electricity consumption of each and every government building. He undertook to provide the Committee with a list of the 70 buildings selected and additional information on the rationale for selecting these buildings.

12. In his letter dated 24 December 1998, the **Acting Secretary for Planning, Environment and Lands** advised the Committee that the EMSD had prepared a list of the 66 buildings audited between 1993 and 1997, and another list of 86 buildings to be audited before the end of 2001. The 66 audited buildings were selected according to the following criteria:

- availability of resources in the respective Divisions in the EMSD servicing the buildings concerned;
- buildings with high electricity expenditure and having good potential for energy management opportunities;
- the EMSD had resident staff providing operation and maintenance services; and
- buildings which were representative of the group of buildings having similar electricity consumption patterns.

The lists of buildings are attached in *Appendix 12*.

13. When invited to comment on the criteria adopted by the EMSD for selecting government buildings for energy audits and the lists of buildings, the **Director of Audit** stated in his letter of 6 January 1999 in *Appendix 13* that:

- in his view, the selection of buildings for energy audits should not be

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restricted to buildings to which the EMSD provided resident staff;

- furthermore, the Energy Audit Programme should systematically cover all government buildings within a reasonable time-frame having regard to the electricity expenditure of individual government buildings;
- the 1,300 government buildings mentioned in his Report did not include the buildings of the Provisional Urban Council, the Provisional Regional Council and the Hospital Authority. However, some of these buildings had been included in the lists provided by the PELB; and
- according to his analysis based on the Government's 1997-98 total electricity expenditure, by the end of 2001, the Energy Audit Programme would only cover less than half of the Government's total electricity expenditure. In his view, at the current pace of conducting energy audit, it would take a long time to cover all the 1,300 government buildings.

14. The Committee noted that paragraph 137 of the Audit Report referred to performance contracting. Under the performance contracting approach, a government department might enter into a contract with an energy services company which paid for all of the up-front costs of implementing an energy management project. In exchange, the contractor received a share of the savings in electricity costs resulting from the improvements for the duration of the contract. The Committee also noted that the Hong Kong University of Science and Technology had entered into a performance contract with an energy services company in 1996, and the Hospital Authority had launched a pilot energy conservation project in the Pamela Youde Nethersole Eastern Hospital with an energy services company in 1997. In the light of this development, the Committee asked whether the Administration had considered performance contracting as an option in implementing the Government's energy management programme. The **Acting Secretary for Planning, Environment and Lands** and the **Principal Assistant Secretary (Environment)** said that:

- the PELB had been studying this option before the Audit review;
- however, there was a need to be cautious with this approach because it was not a panacea to all the problems in the energy management programme. The energy services companies were profit-making businesses and would only be interested in those buildings with high potential for energy savings. It was unlikely that they would be attracted to government buildings, especially those on which energy audits had been conducted;

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- the energy services companies were new to Hong Kong and had to be brought in. The Administration had considered asking a government department to adopt the option so as to set an example to the private sector which had an even higher potential for energy savings; and
- the Administration was taking a multi-pronged approach to solving the energy efficiency and conservation problems. While options would be considered, the contribution of the Energy Efficiency Office and the GMS to the Government's energy management programme should be recognised.

15. The Committee considered that the Administration as a whole should take a more proactive approach in implementing the energy management programme. The **Secretary for Planning, Environment and Lands** said that the Green Managers had a responsibility to actively identify energy management opportunities. A meeting with all Heads of Department had just been held to discuss the Government's energy-saving plans. Their attendance indicated that they did attach importance to energy efficiency. Ultimately, the government departments should assume the responsibility for implementing the various plans. The **Commissioner of Police** confirmed this point and further said that the Heads of Department should be accountable for how public funds had been spent. The **Director of Water Supplies** also said that staff members should exercise self-discipline and try to save energy.

16. With reference to paragraph 62 of the Audit Report, the Committee asked the Director of Water Supplies to explain, after the public hearing, whether operators of waterworks installations had complied with the WSD's energy-saving guidelines. The Committee also asked whether the WSD had established a formal energy management programme to maximise energy efficiency. In his letter of 22 December 1998 in *Appendix 14*, the **Director of Water Supplies** said that:

- the WSD had put in place necessary measures to ensure that energy-saving guidelines were properly followed by operators of waterworks installations;
- the Secretary for Security had reiterated that it was essential to provide adequate lighting for water treatment works and pumping stations for security reasons. However, the design and operation of the lights would be constantly reviewed to see if there was scope for further savings; and

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- an Energy Management Committee headed by an Assistant Director had been set up to oversee and pursue energy-saving measures.

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

The Government's energy management programme and performance contracting

- express grave dissatisfaction that the Planning, Environment and Lands Bureau has failed to provide a clear steer in the implementation of the energy management programme and enforcing the Green Manager Scheme (GMS);
- express concern that Energy Managers appointed under the GMS had not properly carried out their duties laid down in the Guidelines for Energy Managers such as submitting all relevant data to the Electrical and Mechanical Services Department (EMSD) for the compilation of the Building Energy Index for 1996 and 1997;
- express dissatisfaction that the EMSD's Energy Audit Programme did not include the Water Supplies Department (WSD) and the Hong Kong Police Force, which accounted for 55 per cent of the total government expenditure on electricity in 1997-98;
- express grave dissatisfaction about the slow progress of the Energy Audit Programme conducted by the EMSD that of the 1,300 government buildings, energy audits were conducted only in 66 government buildings;
- support the direction given by the Secretary for Planning, Environment and Lands and the Secretary for the Treasury that with regard to electricity expenditure, if savings can be achieved in the recurrent expenditure, the Heads of Department can keep the savings for deployment to other purposes, and that with regard to performance contracting, if recurrent expenditure is not required and if recurrent savings can be achieved, this will amount to investing to save and will be supported by Government;
- recommend that the Secretary for Planning, Environment and Lands and the Director of Electrical and Mechanical Services should:

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- (i) expedite the process of examining and actively source potential energy-efficient electrical appliances and devices;
 - (ii) examine the scope for extending the implementation programme for Category III energy management opportunities to other government buildings; and
 - (iii) consider conducting a pilot energy management project using the performance contracting arrangement to assess whether it is a viable option for implementing energy management projects in government buildings;
- recommend that the Director of Electrical and Mechanical Services should:
- (i) having regard to the costs and benefits involved, evaluate the option of setting up dedicated energy audit teams comprising staff who have the appropriate expertise and experience and who are independent of the operations and maintenance of government buildings;
 - (ii) consider expanding the scope of the Energy Audit Programme and conducting random checks on those government buildings with lesser scope of potential savings within a reasonable time-frame; and
 - (iii) having regard to the declining trend of savings arising from energy audits, closely monitor and review the resources deployed to the Energy Audit Programme to ensure that they are used in a cost-effective manner;

Energy management in the Water Supplies Department

- express concern that pump tests, which are the common practice of monitoring the operating efficiency of pumps, were only carried out on an ad hoc basis;
- express grave concern that a significant proportion of the mechanical and electrical plants of the WSD has already reached the end of their economic lives;
- consider that there is an urgent need to draw up an energy management programme for the WSD, notwithstanding the fact that the WSD has set up an

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Energy Management Committee headed by an Assistant Director;

- recommend that the Director of Water Supplies should draw up a formal replacement programme according to the plants' economic lives;

Energy management in the Hong Kong Police Force

- note that the Commissioner of Police has agreed to the inclusion of police buildings in the Energy Audit Programme of the EMSD in order to review:
 - (i) the adequacy of the housekeeping measures for energy saving;
 - (ii) the reasons for the high electricity consumption by police buildings after normal office hours; and
 - (iii) the need for providing 24-hour air conditioning in police buildings;

Design of energy-efficient buildings

- recommend that the Director of Architectural Services should:
 - (i) monitor closely local and overseas developments and innovations in energy-efficient building design; and
 - (ii) incorporate the latest energy efficiency measures into the design of new government buildings;

Procurement of energy-efficient electrical appliances

- express dismay that, as a result of the EMSD's failure to inform the Government Supplies Department in time to stop purchasing the less energy-efficient fluorescent tubes, the Government may incur an estimated additional electricity expenditure of \$23 million;
- in view of the fact that the less energy-efficient fluorescent tubes have still to be used for quick-start, dimmable light fittings as well as clip diffusers, agree to the Director of Electrical and Mechanical Services' proposal to dispose of

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the remaining stock of the surplus tubes in the open market;

- recommend that the Director of Electrical and Mechanical Services should ensure that all parties concerned, including the general public, are aware of the availability of energy-efficient electrical appliances; and
- wish to be kept informed of the progress of:
 - (i) the energy audits to be conducted in 86 government buildings between now and 2001;
 - (ii) the reviews by the Commissioner of Police on energy-saving measures; and
 - (iii) the efforts made by the Administration in promoting the use of energy-efficient electrical appliances and devices in government departments.

Chapter 6

Information technology projects, staff productivity and central registration of documents

The Committee noted that the Director of Audit had examined the performance of the Land Registry (LR) to see if there was any scope for improvement. Audit focused on the following areas:

- staff productivity;
- the LR's pursuit of regionalisation and central registration which can bring about economies of scale; and
- the management of IT projects.

2. The LR had been operating as a trading fund government department for five years and had invested \$320 million on information technology (IT).

3. According to Audit, there was an increase of 112 per cent in staff productivity from late 1994 to September 1997. However, the LR could not sustain the improved productivity. On the contrary, productivity dropped by 38 per cent during the period from September 1997 to March 1998. Audit's analysis indicated that the decrease in staff productivity was attributable to the fact the LR had not adequately adjusted its staff resources in line with the decrease in workload from 282,000 deeds in the quarter ending September 1997 to 142,000 deeds in the quarter ending March 1998. The Committee noted that technological improvements in terms of computerisation and automation had contributed to the increased productivity since 1994. However, the Committee recognised that the business of the LR was demand-sensitive and its workload would fluctuate according to the volatility of the property market in Hong Kong, especially during the Asian financial crisis. In the light of the technological improvements and fluctuating demand in the coming years, the Committee asked whether there was any staffing strategy to sustain the staff productivity of the LR.

4. In reply, **Mr A G Cooper, Land Registrar**, said that:

- the LR accepted the Audit's recommendation regarding the need to monitor the mix between permanent and temporary staff. In fact, the LR had adopted a staffing strategy of employing temporary staff to supplement its permanent staff. He agreed with the Audit recommendation that the strategy needed to be applied more vigorously. In this regard, he would be assisted by a new measure under consideration by the Civil Service Bureau which would give

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Heads of Department more flexibility in hiring non-Government staff;

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- he considered that the figures in Figure 5 of the Audit Report had reflected the fluctuations in the business of the LR in a negative sense. According to the charts submitted to the Committee prior to the hearing (*Appendix 15*), since March 1998, there had been a substantial improvement in productivity. The number of deeds registered per quarter had increased from 142,000 in March 1998 to 153,000 in September 1998 which was the same level as that registered in September 1994. However, in September 1994, the staffing level was 214 whereas the staffing level in September 1998 was 144. This illustrated that there had been 30 per cent increase in staff productivity;
- the number of sale and purchase agreements in November 1998, which was one of the items that the LR registered, was 96 per cent higher than that in the previous month. This illustrated the difficulties faced by the LR due to the fluctuating demand;
- the LR had responded as flexibly as it could by redeploying staff to other areas of work which required additional resources. For example, in the New Territories, there were eight district land registries. Staff were moved from one office to another when there was a sudden surge in workload. Staff were sometimes moved from the Headquarters to provide assistance to the district land registries. These measures had helped boost productivity; and
- another difficulty faced by the LR was that there was a need to discuss with the Civil Service Bureau the transfer of surplus clerical and supporting staff back to the Government Secretariat and such movements took time to process. In doing this, the LR had to be careful because the general and supporting staff in the LR had received special training which was not given to staff in other non-trading fund departments. As a service organisation, he had to ensure that the general grades staff that the LR retained were up to standard.

5. The Committee considered that the term “productivity” had been defined too narrowly, as it only measured the number of deeds registered per man-day. The term should more accurately include all resources employed, including the use of hardware. In this regard, the Committee invited the Land Registrar to comment on the automation of the LR’s operation and its investment in IT. The **Land Registrar** said that:

- he agreed entirely with the Committee’s view and that was why in early 1997, the LR decided to conduct a strategic change study to identify ways to improve the efficiency of its operations and its services to the public;

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- as indicated in the LR's annual reports and the Audit Report, the LR was providing an efficient service although it recognised that there were ways to improve the services further. Policy approval had been obtained for the implementation of the strategic change plan, the thrust of which included changes to the existing systems of central registration and land titles registration and development of a new computer system. Consultants and staff would be appointed to take this plan forward; and
- the computer system of the LR was designed in the early 1980's and there had been substantial developments since then. There was a need to review the IT systems with a view to providing more cost-effective and efficient services. A paper proposing an information strategy study had been submitted to the Central Consultancy Selection Board. It was hoped that the study could commence in early 1999 and its results would be available in September.

6. With reference to Figure 4 of the Audit Report, the Committee noted that there were two major fluctuations in staff productivity. The first was from September 1993 to December 1994 during which the number of deeds registered per man-day dropped from 13.04 to 8.08, and the second was from March 1997 to March 1998 during which there was a drop from 17.10 to 10.61. Based on the chart provided by the LR, there was no downward adjustment in the number of staff in 1993 and 1994. It was only in 1995 that there was a slight decrease in the staffing level. The Committee asked whether the LR had a mechanism in place to ensure that it could exercise greater flexibility in transferring staff in and out of the department and to avoid reacting passively to fluctuations in demand. The **Land Registrar** replied that:

- the figures quoted were the extreme ones. Staff productivity had returned to registering 15.10 deeds in September 1998, much better than the position presented in Figure 4;
- as far as staff productivity was concerned, the best solution was to pursue an increase in the number of temporary staff. Although the Civil Service Bureau would make it easier for the LR to return and, if necessary, obtain permanent staff, the time required for these movements was always longer than that required for hiring or reducing the number of temporary staff. However, the LR would always need a core of permanent staff; and
- because of the downturn in the property market, the LR had tried to improve

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staff productivity in the past few months by reducing the number of temporary staff. This was the most expedient way to address the productivity issue. In fact, the level of temporary staff had been reduced from 137 in August 1997 to 49 in October 1998, a reduction of 64 per cent.

7. In response to the Committee's question as to why the number of temporary staff could not have been further reduced to correspond with the substantial decrease in the workload, the **Land Registrar** explained that:

- it was the LR's general policy to maintain the level of temporary staff at 15 per cent of the overall workforce. It was a figure that was generally accepted between the LR and the Government Secretariat. The mix between permanent and temporary staff would be reviewed, as suggested by Audit, to identify a more cost-effective ratio;
- however, there was a danger of driving the staff levels down to the absolute minimum because if there was a sudden increase in the number of deeds registered, it would take time to acquire the staff and get them up to speed. The level of service to be provided during this period would fall;
- depending on the nature of the jobs to be filled, it would generally take a few weeks to hire the staff, whether on contract or day-to-day terms;
- therefore, one had to balance between whether the staff numbers should be driven to the absolute minimum level or whether additional costs should be accepted to maintain a high level of service. The LR had so far chosen the latter approach; and
- as a trading fund, the LR had to operate on commercial grounds and to save money. However, at the same time the LR had to maintain a high level of customer service. A decision was therefore taken deliberately not to reduce the funds for staff training as it was essential to the maintenance of the quality of service provided.

8. The Committee considered that if an organisation in the private sector experienced similar fluctuations in its business, it would exercise greater flexibility in deploying or hiring the necessary staff. The Committee asked the Deputy Secretary for the Civil Service whether the recent proposal for employing civil servants on contract terms

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also applied to the LR and whether any guidelines had been drawn up for the Heads of Department to refer to. In reply, **Ms Anissa WONG Sean-ye**, **Deputy Secretary for the Civil Service**, said that:

- the Civil Service Bureau was considering giving more flexibility to the Heads of Department in the implementation of the Enhanced Productivity Programme. If there were fluctuations in the workload of a department in the short-term because of fluctuations in the market, the Head of Department concerned could employ contract staff or non-Government staff according to the department's needs;
- the Civil Service Bureau was drawing up some guidelines for the Heads of Department to follow. In doing so, the main considerations were that there would be greater flexibility for Heads of Department to determine whether the work had to be discharged by a permanent or by temporary staff. The guidelines were being studied and would be available soon;
- the proposed guidelines would be applicable to the LR. In fact, the LR had a mechanism to employ temporary staff during peak periods;
- as regards the LR staff mentioned in paragraph 39 of the Audit Report, they related to permanent establishment posts. For civil servants like these, the Civil Service Bureau had to discuss with the Heads of Department concerned to see if they really wanted to delete the permanent posts. If, in their opinion, they could reduce the establishment of the departments, then they could delete the posts; and
- with regard to general grades staff, the general grades management of the Civil Service Bureau was responsible for deploying these staff. There had to be sufficient and suitable vacancies in other departments to accommodate the affected staff. Actually, the Civil Service Bureau and the LR had been co-operating very closely in this regard. From April 1997 to October 1998, 16 general grades staff members had been transferred out of the LR.

9. In respect of the differences between "contract staff" and "temporary staff" and the respective roles of the Civil Service Bureau and the departments in hiring and deploying staff, the **Deputy Secretary for the Civil Service** further explained that:

- the temporary staff employed by the LR were either on contract or day-to-day

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terms;

- the guidelines that the Civil Service Bureau were studying would apply to employing people on contract. In other words, the Heads of Department could employ people on short-term contracts to discharge non-permanent duties; and
- with regard to deletion of existing posts and redeployment of the civil servants, the Heads of Department concerned would have to assess their long-term needs and decide whether they still needed the permanent posts. They would also discuss the redeployment of incumbent civil servants with the Civil Service Bureau.

10. Referring to the charts entitled “Land Registry Trading Fund - Total number of overtime hours (from April 1997 to October 1998)” and “Average Daily Intake of Deeds (from April 1996 to October 1998)”, which were submitted by the Land Registrar prior to the hearing, the Committee noted the following figures:

<u>Month</u>	<u>Number of deeds per day</u>	<u>Overtime claimed</u>
February 1998	1,604	1,377.5 hours
March 1998	1,896	648.5 hours
April 1998	2,473	930 hours
May 1998	2,415	2,006.5 hours

From the above figures, the Committee were unable to find a logical relationship between the number of deeds per day and the overtime claimed by the LR staff. The **Land Registrar** advised the Committee that the daily demand on the LR’s services would depend on whether there were any public holidays in a month or whether for some particular reasons there were spikes of demand within the month. The overall number of documents for a particular month might be lower than that in the previous months, but it was possible that there were several days within the month where the spikes occurred. For the division concerned to meet its productivity targets, it would probably have to work overtime. The Land Registrar also explained that the LR staff were not only concerned with registration of documents, which took up about 55 per cent of the overall workload of the LR staff. Some of the overtime might have been associated with other activities.

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11. At the request of the Committee, the **Land Registrar** explained in his letter dated 14 December 1998 to the Committee that the overtime hours shown in the chart entitled “Land Registry Trading Fund - Total number of overtime hours (from April 1997 to October 1998)” included not only overtime hours worked on registration but also those worked on other activities such as copying, reports-on-title and document conversion. If the overtime hours for other activities were excluded, the fluctuation of overtime hours for registration from April 1997 to October 1998 would generally be in line with the variation in the number of deeds received. The Land Registrar’s letter and a chart entitled “The Land Registry Trading Fund - Comparison of total number of overtime hours for registration with average daily intake of deeds (from April 1997 to October 1998)” are in *Appendix 16*.

12. In response to the Committee’s question about the circumstances in which overtime was allowed and how it was approved, the **Land Registrar** said that division heads would decide for themselves when to deploy staff to work overtime. The division heads were allowed to operate flexibly, though they were also required to meet the productivity targets and to operate within their budgets. The financial position of the trading fund was monitored monthly. If there was an unusual amount of overtime in one area, it would be detected and examined. He further explained that the LR had exercised strict control over overtime work. There was a standard application form for overtime work. Only division heads could grant the approval and time-off in lieu would be given instead of overtime allowance, if possible. Overtime work was only approved when it was strictly unavoidable and for the purpose of coping with a sudden increase in workload (for example, influx of deeds for registration) or meeting the LR’s performance pledges (for example, provision of certified land documents within the specified period). The LR had all along ensured that overtime work was kept to the absolute minimum and compatible with operational requirements, and it was strictly controlled and properly supervised at all times.

13. The Committee noted that in paragraph 37 of his Report, Audit recommended that the LR should draw up an action plan to restore staff productivity to the September 1997 level as far as possible. In this regard, the Committee asked whether this was a reasonable level and whether it was achievable; and if it was not, whether there was any figure in Figure 4 that could be used as a target based upon which the LR adjusted the number of staff within the department. The **Land Registrar** replied that:

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- he did not consider the September 1997 level a reasonable target for staff productivity because the figure of 17.10 deeds registered per man-day indicated an extremely busy period and it would be impossible to operate at that level permanently;
- as indicated in the chart entitled “Staff productivity in terms of number of deeds registered per man-day (from April 1993 to September 1998)” in *Appendix 15*, the LR had returned from 10.61 deeds registered per man-day in March 1998 to 15.10 in September 1998. It was a substantial increase in productivity. It also reflected a fairly productive workload; and
- the LR could restore staff productivity to the September 1997 level only if the property market returned to the highly unusual and fluctuating levels of transactions which prevailed at that time. With the substantial reduction in the number of staff in the department in the past and in future, it was hoped that productivity would be enhanced.

14. On the question of staff productivity, the Committee asked whether the Civil Service Bureau would accept the points made by the Land Registrar and whether it would continue to monitor the productivity levels of the LR. The **Deputy Secretary for the Civil Service** said that since the LR was operating as a trading fund, it was required to fund itself from the income generated from the services provided, achieve a prescribed return on the average net fixed assets (ANFA) employed and provide an efficient and effective operation that met an appropriate standard of services. Therefore, if there was a need for the Land Registrar to change its financial or productivity targets, the Civil Service Bureau and the Finance Bureau would evaluate its overall operations, including the return on the ANFA. The Civil Service Bureau had also maintained close liaison with the LR on staff matters.

15. The Committee noted that in paragraph 47 of the Audit Report, the Land Registrar said that he had some difficulty with the Audit recommendation that the LR should develop productivity standards on a whole-of-LR basis. On the other hand, he was agreeable to the Audit recommendation that the LR should develop standards which represented the highest level of productivity achievable. According to paragraph 59, the LR expected that the implementation of central registration and land titles registration, as set out in the strategic change plan, would help streamline the operation and enhance the productivity of the LR. In this regard, the Committee asked whether the LR had a timetable to implement the various programmes and whether the Audit recommendations in

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respect of productivity standards would be considered then. The **Land Registrar** informed the Committee that:

- with the implementation of the central registration system, which would be the first phase of the strategic change plan, it was envisaged that there would be a reduction of 71 staff, saving staff costs by \$23.6 million a year and a reduction in accommodation costs of \$13.8 million annually. There would also be substantial savings in the department's operation costs;
- to achieve the above targets, the LR would need to conduct a thorough IT study. As mentioned earlier, a paper proposing an information systems strategy study, the cost of which was estimated to be about \$8 million, had been submitted to the Central Consultancy Selection Board. It was hoped that the study could commence in April 1999 and its results would be available in September; and
- when the strategic change plan was implemented, the LR would develop productivity standards on a whole-of-LR basis and would use the productivity standards as a means to enhance the LR's accountability to the public and the parties concerned, as recommended by Audit.

16. At the public hearings on the other subjects covered in the Audit Report, the Committee got an impression that most government departments would like to retain some surplus capacity within the departments to meet unforeseeable demands; on the other hand, there was concern about the flexibility given to the Heads of Department for hiring or redeploying their staff. The Committee invited the Deputy Secretary for the Civil Service to comment on the Committee's observation. The **Deputy Secretary for the Civil Service** said that the Civil Service Bureau had advised the Heads of Department that when they considered the permanent establishment of the departments, they would have to ascertain whether there was a permanent need for the posts and to justify their demands to the two resource bureaux i.e. the Civil Service Bureau and the Finance Bureau. A ceiling for the establishment would be set. Changes in demand and workload within the departments necessitated a flexible approach to be adopted in staff deployment. That was why the Civil Service Bureau was planning to give Heads of Department more flexibility to hire contract staff. The Bureau would not encourage Heads of Department to reserve surplus resources. It would instead encourage the departments to review their establishment from time to time so that they could make adjustments internally. The **Land Registrar** added that as a trading fund, the LR was not subject to some of these arrangements. As the Head of the Trading Fund, he could create and delete the posts below the directorate level as he felt

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necessary. But he had to advise the Civil Service Bureau of his decisions.

17. According to paragraph 57 of the Audit Report, there was slippage in the implementation of the central registration system and, as a result, the target date for implementation had been changed from early 1997 to 2001. With reference to Table 1 in the Audit Report, the Committee noted that the slippage was mainly due to two problems. First, there were prolonged disputes between the LR and the Information Technology Services Department (ITSD) over the need for conducting the request justification study (RJS). Secondly, the LR had substantially extended the scope of the central registration system covering a comprehensive review of the registration system and supporting IT and physical infrastructure - the strategic change plan. In view of the slippage, the Committee were concerned whether the latest target date could be reached and whether there were other obstacles to the implementation of the central registration system.

18. The **Land Registrar** informed the Committee that:

- he was confident the target date could be reached;
- however, there were issues which were beyond his control. They included appointing the appropriate staff to implement the strategic change plan; creating one or two additional directorate staff posts; and introducing a bill on the land titles system on 31 March 1999. The implementation of the strategic change plan depended on when the bill would be passed; and
- as a trading fund, the LR did not require funding approval, but it would require approval by the Establishment Subcommittee of the Finance Committee to create the posts.

19. The Committee considered that the delay in the implementation of the central registration system was unsatisfactory. According to the chronology of events in Table 1, the project, which was originally expected to be completed within two years, would now take six years to implement. Even the negotiation for the RJS had taken some twenty months, when the study itself only took five months to complete. Having regard to these delays, the Committee asked whether the LR would consider the Audit recommendation that if the computer projects were mission-critical, the option of outsourcing should be explored at an early date to avoid slippage. The **Land Registrar** informed the Committee the relationship between the LR and the ITSD was excellent. Whilst a service level agreement

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could not be reached, the LR had accepted the Audit recommendation to consider outsourcing and a proposal in this respect had been submitted to the Central Consultancy Selection Board.

20. The Committee asked the Director of Information Technology Services to explain the delays. In view of the fast pace of IT development, the Committee also invited him to comment on the Audit recommendation about outsourcing of mission-critical projects. **Mr LAU Kam-hung, Director of Information Technology Services**, said that:

- the relationship between the ITSD and the LR was very cordial;
- in 1997-98, the ITSD had received a total of 89 formal initial request statements. Out of these requests, only 15 RJS were conducted. Most RJS were exempted because of manpower considerations. The ITSD was also concerned about cost-effectiveness and would consider a number of factors before a decision was taken on whether a RJS was required. The delay in conducting the RJS for the central registration system was due to the fact that additional information was required from the LR to enable the ITSD to decide whether a RJS was necessary;
- the central registration system which was to be implemented in 2001 was different from the one originally conceived. This system would be more comprehensive and value-added. Therefore, more time was required for its implementation;
- in order to shorten the lead time for system delivery, the ITSD had embarked on a Change Programme and adopted a new strategy that in future, the RJS and the feasibility study would be conducted in parallel;
- as a trading fund, the LR could operate with greater flexibility. The ITSD did not have the same degree of flexibility. The ITSD had to recover the costs from the LR for its services. It was therefore very difficult for the ITSD to negotiate the price for the provision of service to the LR; and
- he agreed with Audit that the LR should consider outsourcing its work. The LR would be able to implement the projects at a faster pace.

21. On the management of IT projects, the Committee noted that two mistakes had

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been made. The first concerned an over-estimation of the conversion workload. In the contract awarded in December 1995 for the supply of Document Imaging System (DIS), it was stipulated that there would be a minimum conversion workload of 80 million pages for land documents. According to paragraph 88 of the Audit Report, a payment of \$13 million was made in June 1998 as full settlement of all disputes and claims for the difference in service charges between the minimum committed volume of 80 million pages and the actual conversion volume of 55.8 million pages. The second mistake was about unclear tender specifications. According to paragraph 101, the LR had not specified clearly in the tender specifications the need for scanning documents of varying paper sizes. As the DIS could only process documents of A4 size, all non-A4 size land documents had to be photocopied by the LR to convert them to A4 size before image-scanning. As a result, additional workload was created, additional cost was incurred and the LR's operation was disrupted.

22. The Committee considered that these mistakes could have been avoided if the LR had estimated more accurately the conversion workload and stated more clearly the requirements in the tender specifications. As taxpayers' money had been wasted, the Committee asked whether the Land Registrar or any other senior staff should be held responsible for the mistakes. The **Land Registrar** said that:

- when he took up the post, the claim of \$23.6 million already existed. He had refused to pay it. It was only after seeking legal advice and extensive negotiations with the contractor that a settlement was reached. At least \$10 million of the original claim was saved;
- the former Land Registrar was solely responsible for the mistakes, as he was the general manager of the trading fund and was responsible for the operations and accounts of the LR;
- he was not aware of any discussions with his predecessor about censure or reprimand. If there was any, it would have been between the former Land Registrar and the Bureau Secretary; and
- the way forward was for the LR to appoint an IT manager to monitor the day-to-day operation of its IT services more closely. The LR would also enhance its legal coverage so that all future contracts, for example, substantial IT contracts for the strategic change plan, would be vetted more thoroughly.

23. After the hearing and with reference to the Audit recommendation that the Land

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Registrar should seek the assistance of the Secretary for the Treasury and the Secretary for Planning, Environment and Lands in order to secure a service level agreement with the ITSD at an early date, the Committee asked the Land Registrar and the Director of Information Technology Services why the matter had not been brought to the attention of the Bureau Secretaries concerned and resolved by the Bureaux.

24. In his reply of 22 December 1998 in *Appendix 17*, the **Land Registrar** provided the following information:

- the Director of Information Technology Services indicated in March 1998 that the ITSD was a vote-funded department and they did not have the degree of flexibility as a commercial firm to commit themselves to the service standards proposed by the LR. Since signing a service level agreement would not give the LR a higher priority over other government departments in obtaining resources from the ITSD, the Land Registrar felt that a service level agreement with the ITSD would not meet his operational objectives. He therefore decided to appoint an in-house IT Manager and to explore other options of acquiring IT services via an Information Systems Strategy Study (ISSS). This approach was consistent with government policy to examine “outsourcing” solutions for IT problems; and
- approval had been obtained from the Central Consultancy Selection Board for the LR to invite proposals for an ISSS from short-listed firms. The Secretary for Planning, Environment and Lands was aware of the progress of the ISSS and endorsed this approach. A paper proposing the appointment of an IT Manager in the LR would be submitted shortly to the Establishment Subcommittee.

25. The **Director of Information Technology Services**, in his letter of 22 December 1998 in *Appendix 18*, informed the Committee that:

- the Secretary for the Treasury had issued a memo dated 13 May 1997 to General Managers of Trading Funds and Heads of Service Departments on the provision of services to trading funds. It addressed the issue of responsiveness of internal service departments in providing services to enable trading fund departments to meet their customers’ needs. The advice of the Secretary was that when the service departments could not deliver the services as agreed or meet additional requests, trading funds were allowed to seek

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service elsewhere at a competitive price in accordance with the relevant Government Regulations;

- the ITSD and the LR had actively worked through a number of revisions to the draft service level agreement for the Document Imaging System since 1997. Being a service department, the ITSD tried to accommodate new requirements in the service level agreement as far as possible. When it was realised that the ITSD could not provide the level of services as required, and given the clear policy promulgated by the Secretary for the Treasury, support was given to the LR to contract out the services. The ITSD therefore had not sought intervention from the Policy Bureau; and
- since mid-1998, the ITSD had assisted the LR in successfully concluding contracts for the ongoing maintenance and support services for the Document Imaging System.

26. At the request of the Committee, the **Secretary for Planning, Environment and Lands** confirmed in his letter of 19 January 1999 in *Appendix 19* that:

- prior to the introduction of the ISSS, the Planning, Environment and Lands Bureau (PELB) was aware of the fact that the LR was unable to secure a service level agreement with the ITSD for the provision of IT services; and
- the idea of a service level agreement was raised at the bi-annual meeting of 30 April 1997 between the Finance Bureau, the PELB and the LR to discuss issues relating to the financial management of the Land Registry Trading Fund. Its progress was discussed at the meetings on 21 November 1997 and 14 May 1998. The problem in securing an agreement was also raised when the Land Registrar reported to the PELB in March 1998 on the LR's Strategic Change Plan.

27. The **Secretary for the Treasury** also confirmed in her letter of 28 January 1999 in *Appendix 20* that:

- trading funds were allowed to contract out the services they required if their requests for services could not be accommodated by vote-funded service departments and the departments had no objection to the outsourcing arrangement;

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- both the Land Registry Trading Fund and the ITSD had followed established policy in contracting out the IT services in question; and
- policy bureaux stood ready to assist in resolving any disagreement between government departments on the arrangements for the provision of services should the matter be brought to the attention of the bureaux concerned.

28. Conclusions and recommendations The Committee:

- express concern that the management of the Land Registry (LR) had not made much effort to speed up the downsizing of staff, despite the significant reduction in the demand for services and the drop in productivity beginning from late 1997;
- note that the Land Registrar has promised to:
 - (i) review the staffing level having regard to the decreased workload; and
 - (ii) review the mix of temporary and permanent staff to ensure that adequate flexibility in staff deployment is maintained for meeting the fluctuating business demand;
- urge the Land Registrar to plan ahead and liaise closely with the Secretary for the Civil Service, so as to reduce the lead time for transferring surplus staff back to the civil service;
- urge the Secretary for the Civil Service to provide support and assistance to the LR to ensure that it can manage its workforce with maximum flexibility;
- express dismay that the LR and the Information Technology Services Department (ITSD) have been unable to reach a service level agreement on the provision of IT services, and the lack of co-ordination was not expeditiously brought to the attention of the policy bureaux concerned;
- express concern that:
 - (i) the LR is still operating nine district registries and no significant savings have been achieved through economies of scale; and

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- (ii) central registration will not be implemented until November 2001;
- urge the LR to actively pursue the option of acquiring IT resources through outsourcing;
- express serious concern that the LR had grossly over-estimated the conversion workload in its procurement contract and, as a result, the Government had to pay \$13 million to settle the claim from the contractor;
- express serious concern that, due to unclear specifications in the tender documents, the LR could not acquire the most appropriate imaging system and, as a result, additional workload was created, additional cost was incurred and the LR's operation was disrupted;
- recommend that the Land Registrar should, in future procurement of IT services:
 - (i) conduct adequate research to ensure that the conversion workload in the tender specifications is realistic; and
 - (ii) examine thoroughly the characteristics of the LR's work requirements and state them clearly in the tender specifications;
- urge the Director of Information Technology Services to actively assist and provide technical support to all IT users in estimating the conversion workload as accurately as possible and stating their requirements clearly when procuring IT systems;
- express concern that the LR has not established formal procedures for conducting post-implementation reviews and there is no assurance that the results of its IT projects are adequately evaluated;
- recommend that the Land Registrar should conduct timely and proper post-implementation reviews for the LR's major IT projects; and
- wish to be kept informed of the progress of:
 - (i) the measures taken by the LR to adjust the size of its staff;

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- (ii) the LR's review of the productivity standards;
- (iii) the implementation of central registration;
- (iv) the LR acquiring IT resources through outsourcing; and
- (v) the LR's post-implementation reviews of its major IT projects.

Chapter 7

Canteens in government premises

The Committee noted that the Director of Audit's review of the provision and operation of government canteens which, among others, revealed that some departments and the Hong Kong Police Force (Police Force) had not exercised proper control over the access to their canteens, and outsiders were allowed to use them. Audit also found that, as at 31 March 1998, 82 (70%) of the 117 canteens were over-provided with space totalling about 8,653 square metres. The total notional accommodation cost in respect of such space was \$33.3 million a year.

2. Concerning the criteria for the provision of government canteens, the Committee noted the Government Property Administrator's comment in paragraph 5 of the Audit Report that canteens were provided in some government buildings as a convenience rather than a staff welfare facility, and the Secretary for the Treasury's comment in paragraph 7 that it was "very expensive" to provide space for canteens. However, the Secretary for the Civil Service stated in paragraph 23 that canteens had all along been viewed by staff as welfare facilities in which meals were provided at a cheaper price and that any proposed change in the provision of canteens could generate strong staff reaction. In the light of these different interpretations, the Committee asked whether the provision of staff canteens was a staff welfare benefit.

3. In reply, **Ms Anissa WONG Sean-ye**, Deputy Secretary for the Civil Service, said that:

- the Government Property Agency (GPA) had conducted a review of the policy on government canteens in 1991 and the Standing Commission on Civil Service Salaries and Conditions of Service had been consulted. The conclusion of the review was that subsidised meals provided at government canteens should not be a factor to be taken into account in determining civil service pay and that government canteens should only be regarded as a form of convenience provided to civil servants rather than a welfare benefit;
- in the past some low and middle-ranking civil servants had regarded the provision of government canteens as a form of welfare facility and any changes would generate diverse views. The Administration had tried to explain to them that the provision of canteen facilities was not part of the pay package; and

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- after a review of the relevant policy, the Administration had decided that government canteens should only be provided on operational grounds and that it would be necessary to consult the staff concerned if any changes were proposed to any existing canteen facilities.

4. **Miss Denise YUE Chung-ye**, **Secretary for the Treasury**, advised the Committee that:

- the stance of the Finance Bureau was that government canteens should only be provided on operational grounds. This had been clearly stipulated in the latest Accommodation Circular issued in 1997;
- however, in considering the matter, one should take into account the historical reasons for the provision of government canteens. In the 1970s, there were actual operational needs to provide staff canteens in a large number of government buildings. For example, when the government offices were located in the Wan Chai reclamation site about ten years ago, there were no commercial restaurants or catering facilities in the vicinity;
- the Administration recognised that there had been substantial changes since the 1970s. It would review the provision of government canteens in line with changes in circumstances over the years. In fact, there had been some successful cases where under-utilised canteens were closed down. For example, the canteen facilities in Murray Building in the Central District were removed when the building was refurbished in early 1998; and
- the review was an ongoing exercise and in the process of doing so, the Finance Bureau would liaise closely with the Civil Service Bureau to consult the civil servants concerned, so that the stance taken by the Administration would be better understood.

5. On the utilisation of government canteens, the Committee referred to the Audit observation that some canteen operators had not complied with the requirement that only “users and employees” of the government buildings should be served and that customers of the canteens included outsiders such as students in school uniform. The Government Property Administrator was asked to advise the Committee of the actual position of the utilisation of government canteens and of the enforcement actions taken to ensure compliance with the provisions of the Accommodation Regulations.

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6. **Mr LAI Kwok-ying, Government Property Administrator**, said that:

- it had been clearly set out in the Accommodation Regulations that canteens in government buildings either served staff exclusively or staff and members of the public visiting these buildings on official business. For example, police canteens were for police officers and the canteens of the Judiciary should also serve users of the courts such as jurors and lawyers;
- as far as he knew, the use of the canteens by outsiders in the three joint-user government office buildings in Wan Chai was not serious; and
- he was responsible for the policy aspects of the regulations. As regards enforcement actions, it was the responsibility of the Heads of Department and the Building Management Committees concerned.

7. Responding to the Committee's concern about the low utilisation rates of some of the government canteens and as to whether any reviews had been conducted on the under-utilised canteens with a view to scaling down their operation, the **Government Property Administrator** said that:

- not all of the 117 canteens were under-utilised. In fact, some of them were heavily used during meal times;
- as stated in the Audit Report, the GPA would review the viability of those canteens which were under-utilised. A set of internal guidelines had been drawn up since then; and
- the GPA had also invited the Building Management Committees of the three joint-user government office buildings in Wan Chai to review whether the canteen facilities in these buildings should continue to exist and to submit a report to the GPA in one month's time. These three buildings were targeted because the GPA could intervene directly in their utilisation and the contracts for the three canteens would expire consecutively in 1999.

The **Deputy Secretary for the Civil Service** added that the Civil Service Bureau had kept in close contact with the GPA regarding the review on the canteens to be conducted by the Building Management Committees of the three joint-user government buildings in Wan

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Chai. The Civil Service Bureau had not received any specific response from the staff side so far.

8. On the utilisation rate of the canteen located at the West Wing of the Central Government Offices, the **Government Property Administrator** informed the Committee that it was a departmental canteen under the jurisdiction of the Director of Administration. His understanding was that the pricing levels of the menus were not too high and that they had to be approved by the Building Management Committee before implementation. As the contract of the canteen would only expire in 2000, the GPA had not accorded a high priority to review its utilisation.

9. In view of the fact that only three government canteens had been targeted for review after the publication of the Audit Report, the Committee were concerned about the timing of the reviews on the government canteens which were under-utilised. The Government Property Administrator was asked:

- whether there was a timetable for the reviews;
- whether any groundwork could be done prior to the expiry of the contracts; and
- whether the GPA could make any changes to the provision of government canteens during the validity period of the contracts.

10. The **Government Property Administrator** told the Committee that:

- the duration of a standard canteen contract was three years. Some of the current contracts had just commenced and some would expire soon. It was the view of the GPA that the terms of the contracts should be respected and that it would only be appropriate and desirable to consider any changes to the existing canteen facilities when the relevant contracts were due to expire. Unless a canteen operator had breached the terms of the contract, the GPA did not have any power to terminate a contract during the contract period;
- the GPA had a timetable for the review. However, the crux of the matter did not lie in the timing of the review but the implementation of the findings of

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the review. It would be easier to implement the proposed changes at the expiry of the relevant contracts;

- for the departmental canteens which were not located in joint-user government office buildings, the GPA had to consult the relevant Heads of Department on any proposed changes to the provision of canteen facilities. More time and effort would be needed for the changes to be implemented; and
- even if it was decided after the review that certain canteens should be scaled down or closed down, the GPA would still need some lead time to consider the conversion of the space made available into office or other facilities and to renovate the premises.

In respect of staff consultation, the **Deputy Secretary for the Civil Service** said that there would be difficulties in conducting such consultation if the exact proposals for changing the provision of canteen facilities were not known. Wherever necessary, the Civil Service Bureau would find out from the GPA the way forward for the canteens concerned.

11. At the request of the Committee, the **Government Property Administrator** advised in his letter of 24 December 1998 in *Appendix 21* that there was no provision of a break clause in the existing model contract for departmental canteens. However, the Heads of Department and the Building Management Committees could include such a clause in their canteen contracts. Without copies of all the current contracts, the GPA was unable to advise how many of these contracts had incorporated a break clause. The GPA would incorporate a break clause into the model contract.

12. At the public hearing, the Committee also asked the Government Property Administrator about the role of the GPA in monitoring the operation of government canteens and ensuring that the canteen operators complied with the terms of departmental canteen contracts such as those terms concerning access to the canteens by unauthorised persons. It was stated in paragraph 16 of the Audit Report that “the operator is required to ensure that the premises are used and occupied ‘solely and exclusively’ as canteen for the purpose of supplying meals and other foods to the users and employees of a government department in the building.”. The **Government Property Administrator** said that:

- a monitoring mechanism was in place. The Heads of Department were responsible for monitoring the daily operation and performance of the canteen

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facilities within their departments. Canteens in joint-user government office buildings were managed by the relevant Building Management Committees;

- the Heads of Department were also responsible for concluding the contracts with canteen operators. They could actually adjust the terms of the model contract to suit their departments' requirements. This accounted for the fact that some of the canteens were solely used by employees and others were used by employees and users of the buildings; and
- as long as the GPA had agreed that the designated area within a particular building was used as a canteen, the approval of the GPA for the contract or the modification of the terms of the contract was not required.

13. Considering the fact that government canteens were in effect providing a form of subsidy to civil servants, the Committee asked whether the Government Property Administrator would consider revising the terms of the contracts to restrict the provision of canteen facilities to civil servants only. The **Government Property Administrator** said that the stance of the GPA was very clear. As the Government Property Administrator, he would like to restrict the use of the government canteens to those people who really required such facilities and to appropriately scale down the size of those canteens to meet the operational needs of employees in the government buildings. However, he considered that government canteens should best be monitored by the Heads of Department, as they were in a better position to decide the types and scale of facilities required. He would also need to enlist their support if any proposed changes to the facilities were to be implemented.

14. On the question of who should be the best person to decide the provision of government canteens and to manage them, the **Secretary for the Treasury** supplemented that:

- it was clearly laid down in the Accommodation Regulations that the provision of government canteens should only be made if there was an operational need. Members of the public who visited certain government buildings for business reasons could also make use of the canteen facilities in these buildings;
- there was a clear division of labour between the GPA and government departments. Under the present arrangement, the GPA was not the enforcement agency of the Accommodation Regulations, nor was it playing a supervisory role because such supervision would have to be carried out on a

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day-to-day basis. The Heads of Department or the Building Management Committees had a responsibility to meet the conditions set out in the Accommodation Regulations and should be in the best position to play this supervisory role; and

- the Heads of Department and the Building Management Committees should also submit financial returns on the canteens' operation to the GPA. The main purpose of this exercise was to enable the GPA to determine whether such canteens were commercially viable. Where the commercial viability was established for a canteen, a bid rental would be introduced. Canteens which did not satisfy the profitability benchmark would be offered a service contract at a nominal rent.

15. In his letter of 24 December 1998 in *Appendix 21*, the **Government Property Administrator** reiterated that:

- for the purpose of reviewing the commercial viability of canteens as stipulated in Accommodation Circular No. 3/97, the GPA would continue to keep relevant information on canteens to assess their commercial viability. The GPA would ask the departments and the Building Management Committees to conduct utilisation surveys on canteens under their management and to review the continued need for the provision of canteens on operational requirements. The information obtained would help the Administration to decide which canteens should be allowed to continue operation; and
- the GPA did not consider that it had a role to monitor the daily operation of canteens. Substantial additional resources would be required for it to take up the role recommended by Audit in paragraph 153 of the Report. In accordance with Accommodation Circular No. 3/97, the Heads of Department and the Building Management Committees were responsible for the day-to-day management of canteens. They were also in a better position to take up the monitoring role and it would be more cost-effective for them to do so.

16. The Committee noted that although the GPA had conducted a review of canteens in 1991 and had introduced some arrangements in April 1993 to require canteen operators to pay rent for the use of accommodation, according to Audit the GPA had not carried out a review on departmental canteens between April 1993 and April 1997, other than on the

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canteens at the major joint-user government office buildings to ascertain whether these canteens should be charged a bid rental. With effect from May 1997, the GPA had assumed responsibility for periodically reviewing the commercial viability of canteens. Up to the completion of the audit in June 1998, the GPA had not classified any additional canteen as commercially viable. The Committee were concerned about this lack of action and asked the Government Property Administrator what action had been taken in the past five years to ascertain the viability of the canteens and to enforce the conditions laid down in the Accommodation Regulations.

17. The **Government Property Administrator** informed the Committee that the GPA had tried to improve the viability of canteens in the past few years. The GPA reviewed the commercial viability of canteens operated on nominal rentals every three years. Six canteens which were non-commercially viable had been turned into commercially viable canteens. As for enforcement actions, the departments concerned were responsible for controlling the access to the canteens by unauthorised persons. His understanding was that after the publication of the Audit Report, the departments had stepped up their enforcement actions. The **Secretary for the Treasury** added that the ultimate question was whether there was still a need to provide 117 canteens in the government buildings. In fact, 53 of these 117 canteens were police canteens. Even if all these police canteens had to be retained, action should be taken to review the operation of the remaining 64 canteens to ascertain whether they should be scaled down or closed down upon expiry of the relevant contracts. If there was justification for the continued existence of these canteens, the government departments concerned would be required to improve their operation.

18. Referring to Table 4 of the Audit Report showing the estimated maximum utilisation rates of eight police canteens, the Committee noted that the utilisation rates by police staff in uniform in some canteens were only 5% to 10%. In paragraph 39(e), the Commissioner of Police pointed out that the canteen facilities were also used for other purposes. In this regard, the Committee asked whether the Police Force had sufficient facilities for their work and whether there was a need to retain all the police canteens. **Mr HUI Ki-on, Commissioner of Police**, said that:

- the existing facilities in police stations were very basic. Most Uniform Branch officers did not have a desk or office to use. They had to make use of space available in the police canteens to attend to certain administrative paper work. The Finance Committee had recently approved funds for improving office facilities of police stations. However, the Police Force was still short of facilities;

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- the Audit observation in respect of utilisation rates of police canteens was misleading because only police staff in uniform had been included and the survey was conducted between 12:15pm to 2:00 pm. In the police stations, civilian staff could also use the canteen facilities. As the uniformed police officers worked in shifts, they had their lunch in three shifts, i.e. at 11:00 am, 12:00 noon and 1:00 pm. Hence, the utilisation rates were actually higher than those reported by Audit; and
- due to the various operational needs, scaling down or reducing the number of police canteens would have an effect on operational efficiency of the police stations concerned.

19. Responding to the Committee's concern as to why students in school uniform were allowed to use the canteen facilities in police stations and whether, for security reasons, the uniformed police officers should have lunch in police stations and not in commercially-operated restaurants, the **Commissioner of Police** said that:

- he fully agreed with Audit that outsiders should not be allowed to use the police canteens. Subsequent to a question raised by the Provisional Legislative Council on the same subject, a circular had been issued in August 1997 to remind all police stations that they should not allow outsiders to use the canteen facilities. A reminder was again issued in August 1998;
- after the publication of the Audit Report, the Police Force had conducted its own survey. The result indicated that different pricing levels for police officers and outsiders no longer existed;
- the students in school uniform could be members of the Junior Police Call who visited the police stations to carry out certain functions or activities. Under these circumstances, they would be allowed to use the canteen facilities;
- as for the control of access to police canteens by outsiders, the Police Force might have to deploy a police officer to station at the entrance to every canteen, as the canteens in some older police stations were located outside the police station compounds. It was not a sensible move to remove police officers from their normal duty of beat patrol;

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- the operators of police canteens should not be charged with the responsibility for verifying the identity of customers. The ultimate responsibility should rest with the commanders of individual police stations;
- as to why some police officers did not have lunch in the police canteens, one explanation was that some of them might be health conscious, and instead of having lunch during the lunch hour, they went jogging; and
- strictly speaking, uniformed police officers were forbidden to have lunch in commercial restaurants. They had a break of about 30 minutes every day and were allowed to patronise only certain restaurants and tea houses for refreshment.

20. In his letter of 7 January 1999 in *Appendix 22*, the **Commissioner of Police** assured the Committee that police canteens were not under-utilised. He also gave a detailed account of the factors involved to explain why this was not the case.

21. In response to the Committee's questions as to whether any measures had been adopted to encourage police officers to take their lunch at the police canteens and to ensure that the rule forbidding police officers to have lunch in commercial restaurants would be strictly observed, the **Commissioner of Police** replied in the same letter that:

- police officers could best be encouraged to use the canteens if these canteens served reasonable quality food at a competitive price in a clean and pleasant environment. The Police Force closely supervised the management and operations of its canteens to ensure that good standards were maintained by the contractors. A Working Group on the Modernisation of Police Canteens was also examining the future development of the canteens; and
- there were strict Police General Orders which dictated that police officers in uniform should take their meal and tea breaks in police buildings unless authorised by their formation commander to patronise other designated premises. Breach of this order constituted a disciplinary offence under the Police Discipline Regulations and formal disciplinary action would continue to be taken against officers found to be contravening the order.

22. When invited by the Committee to comment on the need to retain all of the police

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canteens, the **Secretary for the Treasury** said that the Administration would conduct a comprehensive review of all the 117 canteens. In conducting the review, the 53 police canteens would be distinguished from other departmental canteens. The Administration would also take into account the views of the Commissioner of Police and the fact that police canteens served multiple purposes.

23. Having regard to the view taken by Audit in paragraph 142 of his Report that the Government should take a uniform stand and formulate necessary guidelines on the issue of the playing of mahjong in government canteens, the Committee asked whether there were consistent guidelines for the canteens of the Police Force and the Correctional Services Department. The **Commissioner of Police** told the Committee that the playing of mahjong was no longer permitted in police stations. Since October 1998, the game had also been prohibited in the Police Headquarters. As for the playing of mahjong in the canteens of the Correctional Services Department, the **Government Property Administrator** said that this would be included in the review of the canteens.

24. At the request of the Committee, the **Acting Commissioner of Correctional Services** confirmed in his letter of 10 December 1998 in *Appendix 23* that the playing of mahjong was not permitted in all the canteens of the Department.

25. Further to the public hearing, Audit had been asked to comment on the point made by the Commissioner of Police that the scaling down or reduction of the number of police canteens would have an effect on operational efficiency, as the canteens were also used for other purposes such as briefing rooms and stand-by areas in times of emergency or special operations. In his letter of 15 December 1998 in *Appendix 24*, the **Director of Audit** pointed out that:

- according to the Schedule of Accommodation for Standard Divisional Police Station issued in August 1985, a Divisional Police Station should be provided with the following accommodation:
 - (i) briefing room;
 - (ii) recreation room for constables;
 - (iii) parade and inspection area; and

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- (iv) compound;
- due to the different age of police stations, not all of them were provided with the special accommodation up to the size or scale specified in the Schedule of Accommodation;
- in so far as the police stations mentioned in Table 4 of the Audit Report were concerned, briefing rooms and recreation rooms were provided; and
- his view on this issue was that if a police station had the special accommodation provided in the Schedule of Accommodation, there should normally be sufficient accommodation for briefing the police officers and for police officers to be on standby. Therefore, he had reservations as to whether there was an absolute need for resorting to the use of canteens for such operational purposes.

26. In the light of the above information, the Committee invited the Commissioner of Police to advise them of the number of police stations which had not been provided with the special accommodation up to the size or scale specified in the Schedule of Accommodation and the adequacy of such provision. In his letter of 22 December 1998 in *Appendix 25*, the **Commissioner of Police** informed the Committee that:

- the 1985 Schedule of Accommodation for Standard Divisional Police Stations made provision of 100 square metres for briefing rooms which could be used for briefing and debriefing purposes and as an area for standby reserves. Since then, a total of four Divisional Police Stations had been provided with such facilities. There were six District/Divisional Police Stations with similar facilities catering for a greater number of staff. In practice, briefing rooms were also used for conferences, training and lectures;
- in addition to the standard provision introduced in 1985, briefing rooms ranging from 11 to 89 square metres had also been provided in 37 police stations upon construction or alteration, primarily for briefing purposes. These facilities were not adequate for other uses especially in times of emergency. As it would not be cost-effective to reserve an area of considerable size solely for emergency standby usage, utilisation of canteens was the most flexible and efficient arrangement which had worked well in practice;

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- up till now, there was no dedicated area in police stations for beat patrol officers to undertake administrative work and they had to use other non-designated areas such as canteens to do the work. This problem had been recognised and a 'duty room' of about 120 square metres would be provided in future Divisional Police Stations including the ones in Wan Chai and Tin Shui Wai; and
- regardless of future development, attempts to scale down or reduce the number of police canteens would greatly affect operational efficiency, especially in emergency situations where there was a significant demand for briefings and standby duties.

27. On the question of charging of utilities for government canteens, the Committee noted that Audit had reservations about the accuracy of the methods used by the Architectural Services Department (ASD) for estimating electricity and water charges and estimated that these charges had been under-recovered. In view of the substantial costs involved in the installation of separate utility meters, the Committee asked the GPA, subsequent to the public hearing, whether the Administration would consider levying an administrative charge, which would be a loading on top of the costs apportioned according to the methods used by the ASD, to recover the utility costs. The GPA had also been asked to advise the Committee as to whether there were other alternatives to recover these costs. At the time of finalising this Report, the reply of the Government Property Administrator has not yet been received.

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

- note the confirmation by the Administration that the provision of government canteens is a convenience and that it is neither a staff welfare facility nor a factor to be taken into account in determining civil service pay;
- support the Secretary for the Treasury's view that it is very expensive to provide space for canteens and welcome her decision to review the provision, the utilisation rate and the commercial viability of all the 117 government canteens;
- recommend that in conducting the review, the Secretary for the Treasury should take into account that the six canteens let on a bid rental are operating smoothly and should consider adopting the following principles:

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- (i) canteens that are identified as commercially viable should all be let on a bid rental;
 - (ii) canteens that are identified as not commercially viable and are unlikely to attract a reasonable bid rental should be closed down when the relevant contracts expire or as soon as the terms of the contracts allowed i.e. if there is a break clause in the contracts; and
 - (iii) where the existence of those canteens is justified on operational grounds, the government departments concerned should exercise strict control over the access and adopt effective measures to ensure that the canteen facilities will be fully utilised;
- recommend that the Commissioner of Police should, in consultation with the Government Property Administrator and after taking into account the availability of existing facilities such as briefing rooms and recreation rooms, expeditiously review the allocation of space for use by police officers to carry out various functions in police stations, with a view to scaling down under-utilised canteens, releasing the accommodation for suitable reprovisioning so as to cater more efficiently for other operational requirements;
 - recommend that the Government Property Administrator, in consultation with the Secretary for the Treasury, should ensure that necessary action is taken to review the operation of canteens, with a view to updating the Accommodation Regulations and Accommodation Circulars if necessary and enhancing the operating departments' capability to follow the relevant guidelines;
 - recommend that in view of the substantial costs involved in installing separate meters in government canteens, the Government Property Administrator should, in consultation with Heads of Department and the Secretary for the Treasury, consider levying an administrative charge as a loading on top of the costs apportioned according to the methods used by the Architectural Services Department, to minimise government subsidy for the supply of water and electricity;
 - note the Government Property Administrator's view that it would take some time for the changes in the provision of canteen facilities to be properly explained to the staff concerned;

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- recommend that the Secretary for the Treasury should, after giving reasonable notice to the parties concerned, expeditiously identify alternative uses for the space made available by scaling down the under-utilised canteens, based on the principle that:
 - (i) government canteens are not a welfare facility; and
 - (ii) the government should not subsidise the facilities except those which are provided for operational needs;
- express concern about the Government Property Administrator's classification of canteens of the Police Force and the Correctional Services Department as messes and the exemption of them from the payment of nominal rent, water, electricity and gas charges, estimated at \$11 million a year;
- recommend that the Secretary for the Treasury should, in consultation with the parties concerned, expeditiously review the policy on the provision and operation of messes;
- recommend that the Government Property Administrator should, in consultation with the Secretary for the Treasury and the Heads of Department concerned:
 - (i) develop a management information system to monitor the operating conditions of government canteens, including the payment of rent and utility charges, utilisation and user figures of canteens, meal prices, the level of accommodation costs and administrative charges and compliance with hygiene and fire safety requirements; and
 - (ii) develop a work programme for reviewing the operations of canteens to ensure that relevant government regulations or guidelines are followed consistently; and
- wish to be informed of the progress of:
 - (i) the aforesaid reviews; and
 - (ii) the action plan to levy charges in respect of accommodation costs for building services.

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Chapter 8

Industrial safety and health

The Committee noted that in the Director of Audit's review of the efforts made by the Labour Department (LD) in pursuing the policy objective of fostering a safe and healthy work environment, the following areas had been examined:

- effectiveness of LD's efforts;
- rectification of irregularities/breaches;
- information on newly-established industrial undertakings;
- implementation of the safety management system;
- the inspection system; and
- other measures to promote safety

2. In view of the fact that industrial safety had been implemented for many years and that there were significant technological advances in the industrial sector in the past 20 years, the Committee asked whether, according to the LD's assessment, the number of industrial accidents had been effectively reduced. **Mr LEE Kai-fat, Acting Commissioner for Labour**, said that:

- according to Audit, the number of industrial accidents had been reduced only by 4.3 per cent. However, according to Table 1, there had been a reduction of about 500,000 workers in the manufacturing industry. If this was taken into account, the reduction should be about 39 per cent. For other major industries, the reduction ranged from 16 per cent to 51 per cent;
- industrial safety was closely related to the restructuring of the economy. In the past ten years, there had been a decrease in the accident rates in the manufacturing industry because some hazardous undertakings had been transferred out of Hong Kong; and
- however, in the construction industry and the catering industry, the accident rates were still not satisfactory. The LD had, in the past year, deployed a greater number of field staff to supervise these two industries. While the number of workers as well as the accident rates in the manufacturing industry had diminished, there was a corresponding decrease in the number of field staff.

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3. With reference to the additional information provided by Audit in *Appendix 26*, the Committee were concerned that information on the average number of working days lost per industrial accident for 1996 and 1997 was not available. The **Acting Commissioner for Labour** explained that the figures were not available when Audit conducted the review because the Employee Compensation computer system had been replaced in 1997. During the interface between the old and the new systems, some archive data had gone missing and could not be retrieved. The Acting Commissioner for Labour assured the Committee that as the new computer system had been operating for some time, the LD would have no problem generating the required data in future. At the request of the Committee, he undertook to look into the matter and provide the required information in writing.

4. In his letter dated 15 December 1998 in *Appendix 27*, the **Acting Commissioner for Labour** informed the Committee that with the assistance of the Information Technology Services Department, the LD managed to retrieve the archive data which were set out as follows:

(i) Total number of days lost for industrial accidents reported and settled in 1996	452,638
(ii) Total number of cases referred to in (i)	28,033
(iii) The average working days lost per accident	16 days

5. According to paragraph 36 of the Audit Report, most industrial undertakings were only given warnings in inspection reports or advisory letters even though they had persistently breached safety and health regulations. In one case, the breaches were repeated 17 times. The Committee asked whether the LD had been too conservative in taking enforcement actions and whether it would consider reviewing the prosecution procedures and taking more effective actions to ensure compliance with the regulations and to achieve deterrent effect. In reply, the **Acting Commissioner for Labour** said that:

- the persistent breaches referred to in the Audit Report were related to cases such as the guarding of machines. It was possible that a certain machine was found unguarded during one inspection and another one was found unguarded at a follow-up visit;
- there were different situations in which prosecutions could not be taken. For

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example, a factory operator might stop operating a power-driven machinery during the visit of an Occupational Safety Officer (OSO) in order to avoid being prosecuted. However, if breaches were detected, the OSO would have to ensure that sufficient evidence was secured to bring the offender to court;

- warnings would be issued only when prosecution could not be taken. The proprietors concerned would also be warned of possible legal action that the LD planned to take;
- in addition to warnings, the LD could issue Suspension Notices or Improvement Notices which specified the period of time within which improvements had to be made. If it was subsequently found that no rectification had been made, then prosecution could be initiated; and
- he agreed with Audit that for those industrial undertakings with persistent irregularities/breaches, follow-up inspections on a random basis should be conducted.

6. On the question of guarding of machinery in factories, the **Acting Commissioner for Labour** further explained that under the Factories and Industrial Undertakings Regulations, certain criteria had to be met before prosecution could be taken. These criteria included: whether the machine was power driven; whether the dangerous parts of the machine were in motion; whether there was any proper guard for the machine and whether there was any person operating the machine. The Committee considered that there was a loophole in the Regulations because factory operators could claim that the machine was not operating because it was awaiting repairs. Excuses like this would prevent effective enforcement actions from being taken. The Committee asked whether the LD would consider amending the relevant legislation to plug the loophole. The Acting Commissioner for Labour admitted that there was a possibility that some factory operators would deliberately turn off the machines to avoid inspection. However, if any irregularities/breaches were detected during the course of inspection, the OSOs would still try to collect evidence by taking pictures or video-taping. In response to the Committee's concern, the Acting Commissioner for Labour agreed to seek legal advice on how enforcement action could be taken more effectively.

7. In his letter of 15 December 1998 in *Appendix 27*, the **Acting Commissioner for Labour** advised the Committee that the LD had considered the pros and cons of amending the legislation so that prosecution could be initiated even if a machine was not in motion.

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There was no doubt that the proposed amendment would make prosecution easier. However, it would inadvertently also capture situations where the operator genuinely kept or stored the machine pending repair, sale or for other purposes. This was clearly not the intention of the law and the LD had some difficulty with this approach. Furthermore, when prosecution was taken in respect of an unguarded machine that was not in use, evidence might be required from experts in the relevant field to establish that the machine was dangerous when it was put in motion. It was also difficult to rebut the defence that the machine would be effectively guarded when it was in use.

8. The Committee were concerned about the level of awareness of both proprietors and workers towards industrial safety. The **Acting Commissioner for Labour** said that the issue was not one of raising awareness, but of fostering self-regulation and a safety culture. What the LD was trying to do was to encourage proprietors to enforce the relevant regulations and to improve self-discipline among workers. The approach would be to start from the senior management and to work downward. This would be a better and more positive approach than taking prosecutions against individuals.

9. The Committee noted that according to paragraph 39 of the Audit Report, 2,265 prosecutions were initiated in 1997. But in other cases, there was a lack of sufficient evidence to make a convincing case in court. The Committee asked whether the number of prosecutions represented a high figure and whether this had exceeded the number of warnings. In view of the fact that the decision as to whether prosecution should be taken relied heavily on the judgement of the OSOs, the Committee were concerned whether these officers were sufficiently sensitive to potential dangers and risks in different industrial settings and whether they had been properly trained to determine whether there was sufficient evidence to make a convincing case in court.

10. In reply, the **Acting Commissioner for Labour** said that:

- in terms of numbers of prosecutions, Hong Kong compared very favourably with other countries. The question was whether a deterrent effect could be achieved. The average fine of contravention of workplace safety legislation was only \$21,000. This was an insignificant amount compared to the huge budget of projects, which could amount to millions of dollars. This concern had time and again been reflected to the relevant authorities;
- prosecutions would be initiated against those proprietors who had

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persistently breached the regulations and had made no attempt to rectify the breaches; and

- OSOs had sufficient legal knowledge and experience, and were aware of relevant precedents. As front-line officers, they could assess the situations on site to determine whether there was sufficient evidence to take the offenders to court. In fact, the success rate of convictions was 92 per cent, which was very high.

11. In his letter of 15 December 1998 in *Appendix 27*, the **Acting Commissioner for Labour** supplemented that OSOs would try to secure the following evidence in order to bring the offender to court:

- to ascertain whether 20 or more persons were employed in manual labour;
- to consider whether circumstantial evidence was available, such as any trace or sign suggesting that articles were being manufactured and that the power-driven machinery had been put to use shortly before the officers arrived but was switched off by the factory management; and
- to identify whether there was any person on the premises who could provide sufficient information and was willing to testify before court to establish a breach of the regulation.

12. Having regard to the Audit observation in paragraph 67 that the interval of regular inspections for industrial undertakings normally ranged from six to 54 months and that in 1997, there was a backlog of 31,000 cases, the Committee were of the view that the fundamental problem lay in the low frequency of inspections and prosecution rate. The **Acting Commissioner for Labour** explained that the backlog cases were related to the industrial undertakings whose business/activities were of a less hazardous nature. According to the LD's rated-point system, industrial undertakings which were of lower scores would be inspected at less frequent intervals and priority would be accorded to the high-risk industrial undertakings.

13. Turning to the regulatory actions for government works contracts, the Committee noted that according to the Works Bureau circulars promulgated in 1994, the circumstances leading to regulatory action by the Secretary for Works included: "the contractor has had six

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or more convictions in a rolling six-month period for safety related offences under the Factories and Industrial Undertakings Ordinance (FIUO), in respect of separate incidents on the same contract. All convictions arising from prosecutions as a result of a single site inspection by the LD, irrespective of the dates of such convictions, are counted as a single incident". The Committee asked whether this criterion was too lax, as no regulatory action could be taken if the offences were committed during different time periods. In this connection, the Committee asked whether other measures would be adopted to ensure that regulatory action would be taken against those contractors who had a poor safety record. In reply, **Mr KWONG Hon-sang, Secretary for Works**, said that different regulatory actions would be taken against those contractors with poor safety performance. In addition to keeping a safety record, the project Architects or Engineers also conducted regular inspections of the contractors' site safety performance. Under the rated-point system, contractors with poor safety performance would be given a very low score. If three warnings were issued to them within a year, then they would be downgraded or suspended from bidding for government works contracts. Their safety records would also be considered in other pre-tendering exercises, which in turn would affect their chance of tendering for future contracts.

14. According to paragraphs 40 to 43, the FIUO required the proprietors of certain newly-established industrial undertakings to notify the LD before or shortly after the commencement of work, so that the LD could conduct timely inspections to detect safety hazards. The Committee noted that according to an Audit review, 70 per cent of such undertakings had failed to comply with the requirement, that the average time taken for the LD to become aware of the existence of these workplaces was 8.3 months, and that in some of the non-compliance cases, the LD became aware of the existence of these workplaces only when it was informed of an industrial accident. Even if the LD was aware of these workplaces, inspections were not conducted until one or two months later. The Committee also noted that in the past five years, the LD had not prosecuted any person for failure to comply with the notification requirement of the FIUO, that the LD had regarded the non-compliance as a technical breach and that enforcement action against a technical breach was not cost-effective. In this regard, the Committee asked whether the LD was satisfied with the position of the matter and whether any action would be taken to improve the rate of compliance.

15. The **Acting Commissioner for Labour** said that:

- the LD had found the situation unsatisfactory and would not accept that nothing could be done about the situation;

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- as stated in the Audit Report, the LD would be made aware of the existence of construction sites or newly-established premises such as restaurants through referrals from various government departments such as the Territory Development Department, Buildings Department, Urban Services Department and Fire Services Department. The LD was only unaware of certain minor establishments;
- some newly-established undertakings were identified during site inspections. In the first nine months of 1998, the LD had inspected 7,778 new sites whereas in 1997 and 1996, about 5,000 and 3,000 sites were inspected respectively;
- timely inspections were not conducted because there were only 260 officers who were responsible for about 90,000 site inspections and accident investigations. If they were deployed to take enforcement action against the non-compliant cases, then their other areas of inspection work would be affected. That was why efforts had been focused on the high-risk sites/undertakings;
- the high non-compliance rate could be attributed to a lack of awareness among proprietors. The LD had taken positive steps to publicise the notification requirement through the mass media. The Inland Revenue Department had also been requested to distribute leaflets about the requirement; and
- in the past, the LD rarely took prosecution action against failure to notify because it was difficult to secure adequate evidence. For example, it was difficult to ascertain the exact date of commencement of operation. This was crucial to prosecution, as legal action was time-barred beyond six months from commencement of operation.

16. The Committee asked whether there was a need to review the legislative provision in respect of the six-month time bar and the penalty for non-compliance and whether the LD would consider taking more vigorous enforcement if the relevant provisions had been amended. The **Acting Commissioner for Labour** agreed that there was a need to review the adequacy of the legislation. If the six-month time bar was removed, it would be easier for the LD to take enforcement actions; and if the fines were increased, then the action taken would be more cost-effective. In his letter of 15 December 1998 in **Appendix 27**, the **Acting Commissioner for Labour** informed the Committee that the

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Administration's legal advice had confirmed that the enforcement problem could be overcome if the statutory six months limit was suitably extended by amending the relevant regulations. The Administration would consider making suitable amendments to the regulations to address the problem.

17. The Committee recalled that the former Governor of Hong Kong had once commented that the safety records of the industries were an insult to Hong Kong. In the light of this comment, the Committee asked whether the policy bureau concerned would urgently review the relevant legislation so that the number of industrial accidents could be reduced. The **Acting Commissioner for Labour** said that a considerable number of legislative amendments had been made. More would be introduced and attempts would be made to expedite the process.

18. Referring to paragraph 56, the Committee noted that in November 1995, the Executive Council had endorsed the recommendation made by the Administration to introduce the safety management approach and to amend the FIUO. The Administration informed the Executive Council that the target date for submitting a bill to the Legislative Council to amend the FIUO was May 1996. According to paragraph 64, the Administration was unable to introduce the proposed legislation according to the original timetable because the proposal, along with several other safety related items, failed to meet the "essentiality test" for submission to the Provisional Legislative Council in 1997-98. The Committee were not convinced of the reason given and asked whether there were other reasons leading to the slippage. The **Acting Commissioner for Labour** said that some difficulties were encountered in the course of drafting the bill. This was due to the fact that safety management was a new concept and references were not readily available. In the end, more time was required for the drafting. The original timetable was for the bill to be introduced in the Legislative Council in 1996. However, it was delayed. The delay was not due to pressure from the business sector. It was hoped that the bill would be introduced in early 1999.

19. In view of the difficulties in taking prosecution action against those industrial undertakings for persistent irregularities of safety measures and breaches of safety and health regulations, and for failure to comply with the notification requirement under the FIUO, the Committee invited the Secretary for Education and Manpower to comment on whether there was an urgent need for amending the existing legislation or introducing new legislation to enhance the effectiveness of enforcement actions and to improve safety and health at workplaces. The Secretary was also asked to give a full account of the reasons

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leading to the slippage in introducing the bill to amend the FIUO for the implementation of the safety management system, and to advise the Committee as to whether there was a legislative timetable to introduce the proposed legislation.

20. In his letter of 17 December 1998 in *Appendix 28*, the **Secretary for Education and Manpower** advised the Committee that:

- in respect of efforts made by the OSOs to secure sufficient evidence to bring offenders to court, he would ask the Commissioner for Labour to monitor the situation closely and report progress on the matter;
- as regard the time limit of six months for prosecuting a proprietor for failing to comply with the notification requirement, the Administration was prepared to introduce legislative changes to the FIUO in the next Legislative Council session; and
- the Administration intended to introduce a new subsidiary regulation under the FIUO on the implementation of a safety management system into the Legislative Council in early 1999.

21. In another reply dated 28 December 1998 in *Appendix 29*, the **Secretary for Education and Manpower** explained that:

- it was the Administration's original target to introduce new legislation on a safety management system, i.e. the Factories and Industrial Undertakings (Safety Management) Regulation, into the then Legislative Council on 1 May 1996. Unfortunately, the preparation and law drafting processes on the Regulation were beset with problems and took much longer than anticipated. This was primarily because the whole concept of safety management was new to Hong Kong and considerable research work and background studies on overseas practices and experience were required in the preparation of the detailed drafting instructions;
- drafting work on the Regulation also proved difficult and time-consuming since the subject matters involved were complex, wide-ranging and technical. The drafting was further complicated by the fact that the parallel amendments to the main ordinance were required to provide the Commissioner for Labour with the requisite regulation-making power;

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- consequently, drafting work on the Regulation could not be completed in time for submission to the Legislative Council in the first half of the 1996-97 Legislative Session. By the time the Regulation was ready in mid-1997, it was caught by the Administration's conscious decision that only essential bills and subsidiary legislation should be introduced into the Provisional Legislative Council. In order to satisfy the "essentiality test", the proposed legislation had to be transition related, election related, public safety related or seek to ensure the proper functioning of the Government of the Hong Kong Special Administrative Region. As the Factories and Industrial Undertakings (Safety Management) Regulation failed to satisfy this test, it could not be introduced into the Provisional Legislative Council; and
- several other pieces of industrial safety related legislation were also similarly affected. They included the Factories and Industrial Undertakings (Confined Spaces) (Amendment) Regulation, the Construction Sites (Safety) (Amendment) Regulation, the Factories and Industrial Undertakings (Medical Examinations) Regulation and the Factories and Industrial Undertakings (Amendment) Bill on introducing mandatory safety training for construction and container handling workers. The legislative timetable for these and other industrial safety related legislation was set out in the letter in *Appendix 29*.

22. The **Secretary for Education and Manpower** further advised the Committee in his letter of 30 January 1999 in *Appendix 30* that:

- the criteria used to determine the "essentiality" of bills and subsidiary legislation were set out in a memorandum issued on 6 June 1997 by the Director of Administration; and
- the Factories and Industrial Undertakings (Safety Management) Regulation did not meet the criteria of being transition related, election related or concern public safety (which referred to law and order matters). Since it proposed the imposition of new duties on the proprietor/contractor of selected industrial undertakings in Hong Kong to implement a safety management system, the Regulation was also unrelated to the proper functioning of the Special Administrative Region Government.

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

- express concern that the industrial accident rate has increased from 53 accidents per 1,000 employees in 1996 to 60 in 1997;
- consider it deplorable that the warnings given by the Labour Department (LD) on breaches of safety requirements were regularly disregarded;
- express dismay that the actions taken by the LD to ensure that persistent irregularities were rectified have been appallingly ineffective;
- express astonishment and grave concern that the notification requirement under the Factories and Industrial Undertakings Ordinance was not complied with by a large proportion of newly-established industrial undertakings;
- express dismay that the Commissioner for Labour has not taken positive action to ensure that the notification requirement is complied with;
- express concern at the delay in implementing:
 - (i) the safety management system; and
 - (ii) a strategy for safety management for small industrial undertakings;
- express dismay that the proposed legislation has been delayed for the whole year between 1996 to 1997;
- consider it a questionable excuse that the Administration was unable to make the proposed Factories and Industrial Undertakings (Safety Management) Regulation according to the original timetable solely because it failed to meet the “essentiality test” for submission to the Provisional Legislative Council in 1997-98;
- note that the Secretary for Education and Manpower will introduce to the Legislative Council a series of new subsidiary legislation under the Factories and Industrial Undertakings Ordinance on the implementation of the safety management system in the early part of 1999;
- recommend that the Commissioner for Labour should:

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- (i) carry out follow-up inspections on a random basis to ensure that irregularities and breaches are rectified as soon as possible;
 - (ii) closely monitor the effectiveness of the safety management system to ascertain whether the system will achieve the expected results; and
 - (iii) consider formulating a safety management strategy for small industrial undertakings;
- regret that, although weaknesses in the rated-point system were identified in April 1997, the Administration had failed to revise the system until 15 months later;
 - express concern that few regulatory actions had been taken against government contractors even though two contractors were involved in fatal accidents;
 - note the promise by the Secretary for Works to formalise the plan to tighten the criterion of six convictions in a rolling six-month period for taking regulatory action, and expect the Administration to proceed with alacrity and submit the proposal to the Legislative Council as soon as possible;
 - note the promise by the Commissioner for Labour to:
 - (i) issue more Codes of practice and to conduct proper and sufficient analyses of the data on irregularities and breaches for future planning and management decisions;
 - (ii) amend the legislation to enhance the effectiveness of enforcement actions, and expect the Administration to proceed with alacrity; and
 - (iii) identify newly-established industrial undertakings by making better use of the information channeled through other government departments; and
 - wish to be kept informed of the progress:
 - (i) of the review on amending the legislation to enhance the effectiveness of enforcement actions against recalcitrant offenders;

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- (ii) of the timetable for introducing legislation in respect of the Factories and Industrial Undertakings Ordinance on:
 - enforcement actions against breaches found;
 - compliance with the notification requirement; and
 - the implementation of the safety management system;
- (iii) of the evaluation on the revised inspection system;
- (iv) of issuing Codes of Practice; and
- (v) made by the Works Bureau in tightening the regulatory actions against government contractors.

Chapter 9

Monitoring of outdoor staff

The Committee noted the Director of Audit's review on the effectiveness of three government departments in monitoring their outdoor staff:

- the Meter Readers II of Water Supplies Department
- the Field Officers of Census and Statistics Department
- the delivery teams of Government Supplies Department

Water Supplies Department (WSD)

2. According to Audit, a surprise inspection conducted in May 1998 and an analysis of the meter-reading data for November 1997 revealed that:

- there was a high rate of late attendance among the Meter Readers II (MR IIs);
- there was inadequate control to ensure that the arrival times entered in the attendance books were accurate and the reliability of the attendance books was questionable; and
- a significant proportion (59 per cent) of 82 MR IIs had consistently either finished work early or taken a long break of three to five hours in their working day. On average, these MR IIs only worked about four and a half hours a day, which represented 56 per cent of the official eight working hours.

3. The Committee were concerned about the high rate of late attendance of the MR IIs and asked how their attendance was monitored. **Mr HU Man-shiu, Director of Water Supplies**, informed the Committee that the MR IIs were required to sign in an attendance book at the regional sub-offices, which was checked by their supervisors. This attendance book system was out-dated, as the department had more than 5,000 staff members working in various districts. The WSD had adopted a computerised time-recording system which would be installed by phases in the regional sub-offices. The installation would be completed in January 1999.

4. The Committee noted that since 1993, the MR IIs had used hand-held computers to record information on site while conducting meter readings. As the computers had a time-log system which recorded the time of every entry of water account records, the Committee asked why the WSD had not made use of the time-log data captured in the

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computers to monitor the work of the MR IIs. The **Director of Water Supplies** said that:

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- it was not true that the WSD had not used the time-log data captured in the hand-held computers to monitor the work of the MR IIs. Since the implementation of the computer system, the staff members were aware that the timing and the time spent on meter readings would be recorded in the system. However, MR IIs were required to perform other duties, and the time spent on these duties could not be properly recorded in the hand-held computers;
- all the meter readers and their supervisors in the Meter Reading Section knew how the computer system worked; and
- the supervisors were aware of the work pattern of the MR IIs and were of the view that the meter readers had performed their duties in accordance with the relevant regulations.

5. In view of the Audit observations that some MR IIs had consistently finished work at an early time and that one MR II had, on average, finished work at about 11:00 am, the Committee were concerned as to whether the WSD had an internal monitoring system to verify the working hours of the MR IIs. The Committee asked whether there were any internal guidelines and whether there were any records or documents to prove that the internal monitoring system did exist. The **Director of Water Supplies** said that:

- he believed that the supervisors in the Meter Reading Section had made use of the information in the hand-held computers to monitor the work pattern of the MR IIs; and
- he had to admit that at this point in time, he was not in a position to answer the question in respect of availability of records to prove the existence of the internal guidelines and the internal monitoring system.

6. With reference to the comment given by WSD in paragraph 39 of the Audit Report that some outstanding MR IIs might complete a meter-reading route earlier than the others, the Committee asked whether there was a policy to allow the MR IIs to finish work early and why they could have short working hours. The Committee also asked whether any remedial action would be taken to rectify the situation. The **Director of Water Supplies** said that:

- it was not WSD's policy to allow the MR IIs to finish work early;

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- he believed that the whole Meter Reading Section was aware of the fact that there was some surplus time in the daily work of the MR IIs. It was likely that the supervisors of the MR IIs had not reported the irregularities to the senior management because of a lack of self-discipline and initiative. That was why he was not made aware of the peculiar work pattern of some MR IIs;
- he had checked with the Chief Meter Readers who confirmed that they were not aware of the irregularities in respect of the short working hours of the MR IIs;
- he agreed entirely that the senior management of the department also had a duty to supervise the staff of junior ranks;
- as pointed out by Audit, the main reason for the short working hours of the MR IIs was insufficient workload for some of the meter-reading routes. The WSD would therefore conduct a review of the 6,800 meter-reading routes expeditiously. In the mean time, the workload of the MR IIs would, on average, be increased by 15 per cent. In doing so, the number of routes would be reduced to about 5,000. Those MR IIs who could finish work in less than eight hours would be required to return to the office and to undertake more duties; and they would be given credits for doing so; and
- by increasing the workload of the MR IIs, 15 per cent of the manpower originally deployed for meter reading would be saved. This would result in a surplus staff provision of about 13 to 15. These MR IIs would be assigned to take final readings for consumers before the closure of their accounts. This was a new service and the number of such accounts was about 86,000 to 100,000 per year.

7. In respect of the workload of the MR Is, the **Director of Water Supplies** pointed out that the duties performed by the MR Is were different from those of the MR IIs. Their main duties included reviewing the existing meter-reading routes, compiling new routes, checking the daily summary reports and conducting spot checks on the accuracy of the meter readings taken by the MR IIs, performing special meter readings at the request of users and following up irregularities.

8. The Committee invited the Secretary for the Civil Service to comment on the

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peculiar work pattern of the MR IIs. The Committee also asked whether he had given any guidelines to Heads of Department on irregularities of working hours and whether the MR IIs concerned had breached the Civil Service Regulations. **Mr LAM Woon-kwong, Secretary for the Civil Service** said that the Civil Service Regulations stipulated that the conditioned working hours of civil servants were 45 hours per week. This meant that civil servants were required to perform their duties during these 45 hours. The actual working hours were to be decided by the Heads of Department based on operational needs. But short working hours were not allowed.

9. Responding to the Committee's question on the disciplinary actions taken in accordance with Civil Service Regulations against those MR IIs who repeatedly breached the attendance requirements or were found to have made incorrect entries in the attendance books and also against their supervisors, the **Director of Water Supplies**, with the consent of the Secretary for the Civil Service, said that:

- warning letters had been issued to all seven MR IIs who had made incorrect entries in the attendance books. The warnings, which would be effective for one year, had also been recorded in their personal files and would affect their promotion prospects;
- the supervisors of the MR IIs concerned had been given verbal warnings, which would also be put on record; and
- five Chief Meter Readers had been warned because of the short working hours of the MR IIs who were under their supervision. They had been asked to allocate sufficient workload to the meter readers.

10. Having regard to the fact that under the Civil Service Regulations, there were difficulties for Heads of Department to take disciplinary action against civil servants and that it might take a few years for a dismissal to be implemented, the Committee asked whether the Director of Water Supplies had had problems in taking disciplinary action in the WSD. The **Director of Water Supplies** replied that he had no problem taking disciplinary action against meter readers. All that he required was the approval of the Secretary for the Civil Service for the action to be taken. However, he did not rule out the existence of other difficulties. The **Secretary for the Civil Service** also said that:

- disciplinary procedures were clearly laid down in the Civil Service Regulations. The Heads of Department were given the authority to impose

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disciplinary action against the lower and middle-ranking civil servants. For civil servants at the more senior level, special approval had to be sought. For example, the approval of the Public Service Commission was required if disciplinary action against misconduct of a serious nature was to be taken;

- for disciplinary action taken against the civil servants whose ranks were within the jurisdiction of the relevant head of department, the Civil Service Bureau would still consider whether the decision made by this head of department was appropriate. Similarly, while the Director of Water Supplies had the authority to take disciplinary action against the MR IIs, the Civil Service Bureau would still examine the decisions of the Director of Water Supplies to see if they were appropriate; and
- basically, there was nothing wrong with the procedure itself. What the Administration was trying to do was to put in place appropriate measures to appraise the performance of civil servants.

11. On the question of allocating sufficient workload to the MR IIs, the Committee were concerned whether there were any standards for designing the meter-reading routes and as to why the MR IIs but not the Chief Meter Readers should be held responsible since the latter should assign appropriate workload to the meter readers to ensure that their time was spent productively. The Committee also enquired whether it was possible to ask the MR IIs to work overtime, instead of building in various allowances when planning the meter-reading routes, to ensure that the MR IIs would finish the work assigned to them. The **Director of Water Supplies** explained that:

- he could not jump to the conclusion that the Chief Meter Readers should be held responsible for the unsatisfactory situation. This was due to the fact that there were over 2.2 million water meters all over Hong Kong. For each meter, at least three readings had to be taken every year. The meters were grouped into about 6,800 meter-reading routes. The number of meters on each route varied, depending on factors such as the location, the physical environment and the distribution of the meters and the travelling time required. The working experience and physical fitness of the meter readers also differed quite significantly. As a result, the number of meters read could range from a few dozens to 500 or 600 per day;
- for the purpose of preventing corruption, the routes were assigned to the meter readers the day before the readings were to be taken. In order to ensure that

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the MR IIs would complete the work within normal office hours, the amount of workload to be allocated could only base on the ability of an average MR II. That was why it was not possible to design the routes in such a way that all MR IIs would finish work at the same time;

- as to whether the MR IIs should be asked to work overtime if they could not finish the day's work, the WSD had considered this arrangement before and concluded that management problems would occur because it would be difficult to verify whether there was a genuine need for the staff concerned to claim overtime;
- therefore, the question was not about the MR IIs not completing the work assigned to them, but how they could make use of the remaining time. It could not be said that the MR IIs had done something wrong. In fact, the problem of how the remaining time should be used had to be addressed by the whole Meter Reading Section; and
- the WSD had commissioned the Hong Kong Productivity Council to conduct a route review in order to determine more scientifically the optimum route sizes under various situations.

12. Noting that the WSD would commission a consultant to review the meter-reading routes, the Committee were concerned about the cost involved and questioned why the department itself had not taken up the review since the departmental staff should be most familiar with those routes. The **Director of Water Supplies** advised the Committee that the consultancy would not cost more than \$200,000. The major consideration in engaging a consultant was that an independent party with expertise in staff productivity would be desirable in helping the department identify areas for improvement. The **Secretary for the Civil Service** added that in accordance with long-established management practice, it would be desirable to engage an independent expert to conduct the review.

13. In the light of the difficulties involved in monitoring the work of the staff who worked outdoor, the Committee asked whether the Director of Water Services had considered the option of contracting out the meter-reading service. The **Director of Water Supplies** said that in 1992, the WSD had actually explored this possibility. After some careful study, the private sector decided not to take up the offer because of investment considerations. The idea was therefore held in abeyance. As the circumstances had changed over the years, he would actively consider pursuing this option again.

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14. Referring to the latest information given by the Director of Water Supplies that there was a surplus staff provision of about 15 per cent among the MR IIs, the Committee asked the Secretary for the Civil Service to comment on the situation and how it would be rectified. The **Secretary for the Civil Service** said that:

- the Administration had a long-established procedure to deal with the situation where surplus staff had been identified. The head of department concerned would consider whether the surplus staff could be redeployed within the department. If that could not be done, then other government departments with similar work postings would be asked to absorb these surplus staff. The Civil Service Bureau would also be actively involved in those cases where the staff concerned had to be made redundant. In the case of the WSD, as the number of staff involved was relatively small, there should not be a need for the Civil Service Bureau to intervene. However, as the issue surrounding the supervision of outdoor staff had become a public concern, the Bureau would take the initiative to follow up redeployment arrangements;
- there was a need for individual Heads of Department to monitor the establishment of their own departments very carefully. With the advancement in technology, the manpower situation should be reviewed regularly to assess if there was any surplus staff provision;
- with the implementation of the Enhanced Productivity Programme, all Heads of Department had been asked to put in place measures to achieve staff savings within their own departments. The 5 per cent productivity increase represented a basic requirement. The Civil Service Bureau would discuss with individual departments as to whether there were better methods to improve the public service in the medium and long term; and
- generally speaking, the growth of the civil service establishment in the past ten years had been relatively slow and the number of surplus staff was not significant, but he believed that there was still room for individual departments to achieve savings in staff costs.

15. Referring to the Audit observation that 20 MR IIs had consistently taken a long break of several hours and then performed one to three meter readings shortly before the official time for finishing work, the Committee asked whether there were any particular

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reasons for this peculiar work pattern. The **Director of Water Supplies** explained that:

- there was a possibility that in the process of reviewing the meter readings or logging out the hand-held computers after a day's work, the MR IIs had used the keys of the hand-held computers incorrectly, and as a result, the actual meter-reading times and the recorded time of the last one or two meter readings were overwritten; and
- as the programme of the hand-held computers could not be changed, the WSD had issued warnings to all MR IIs to remind them to use the keys properly so as to avoid erasing the meter-reading times. A new arrangement had also been adopted whereby MR IIs were required to report to their supervisors the location of the work and the amount of workload accomplished within the meter-reading route. The information given would be verified subsequently with the records retrieved from the hand-held computers.

16. According to paragraph 46(e) of the Audit Report, the Director of Water Supplies had said that the WSD would consider setting up a spot-checking system to strengthen the control over the attendance of the MR IIs while performing outdoor work. In this regard, the Committee asked whether the system had been put in place. The **Director of Water Supplies** said that he had to be very careful with setting up the spot-checking system. The nature of the work of the MR IIs was different from that of other outdoor staff because they had to walk all the time in performing their duties. It would not only be costly in terms of manpower to conduct the checks, but would also affect the morale of the staff concerned. The WSD was therefore actively studying other more positive methods to strengthen the control system and the study would be completed soon. If additional manpower was required, the department would try to meet this need through internal redeployment of staff.

17. The Committee considered that the supervisory system in the WSD had apparently relied too heavily on the self-discipline of the staff involved, which was unsatisfactory from the management point of view. Furthermore, when things went wrong, it was the staff at the junior level who got all the blame and disciplined. The Secretary for the Civil Service was asked whether any clear guidelines for staff at the senior management level had been promulgated so as to ensure that an effective supervisory system would be put in place in all government departments. The **Director of Water Supplies** agreed that the staff concerned should not take all the blame if the system itself was problematic. He fully understood their difficulties. The WSD was making effort to improve the supervisory system in the Meter Reading Section. In the long run, both the management and

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monitoring systems of the department would be strengthened. The **Secretary for the Civil Service** also said that:

- the Civil Service Bureau would follow up each and every issue identified by Audit. He agreed that the reward and punishment system and the management culture of the whole Government had to be reviewed, and that a comprehensive reform might be required;
- in fact, the Civil Service Bureau had issued a circular on 19 November 1998 to all the Heads of Department, in particular those with outdoor staff, asking them to review their existing systems on staff supervision and to make a report to the Bureau in three months' time. Based on the information given, the Bureau would try to draw up an improved set of guidelines;
- these guidelines would only serve as a reference. What the management level required was an awareness and willingness to strive for improvement in the management culture. This would in turn influence the attitudes of the staff as to whether they would exercise more self-discipline and become more conscientious;
- like all other governments around the world, the element of competition was missing in the Special Administrative Region Government. This had given rise to problems in the civil service. It was believed that to a certain extent, the introduction of competition would enhance effectiveness. Measures such as contracting out of some public services and introduction of corporatisation or privatisation would help strengthen the competitiveness of the system and management awareness; and
- the Civil Service Bureau would look at the departments individually to assess the nature of their work. As far as the WSD was concerned, the Administration would adopt a long-term view in examining how the water supply service could be improved.

18. The **Director of Water Supplies** advised the Committee that additional measures had been implemented to strengthen the internal monitoring and control system. These measures were set out in his letter of 10 December 1998, which is attached in *Appendix 31*.

19. The **Director of Water Supplies** further advised the Committee in his letter of

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19 January 1999 in *Appendix 32* that:

- the Time and Method Study on meter reading conducted by the Hong Kong Productivity Council had been completed. The recommendations of the study would be implemented immediately;
- the WSD had completed the route review and 1,085 routes had been deleted resulting in a surplus of 13 staff. The surplus staff would be deployed to perform final reading and other office work. They would also serve as leave relief for other meter readers;
- a review had been conducted by the WSD and the Civil Service Bureau on the seven cases which had made false entries in the attendance books. It was agreed that formal disciplinary action under the Public Service (Administration) Order, instead of verbal warnings, should be instituted against the seven MR IIs concerned to reflect the gravity of the misconduct; and
- advisory letters were issued to four Chief Meter Readers who were in charge of the sub-offices of the Meter Reading Section at the material time. All Chief Meter Readers had been urged to make conscientious efforts to monitor the attendance of their staff and to enhance staff productivity.

20. At the request of the Committee, the **Director of Audit** made the following comments, in his letter of 25 January 1999 in *Appendix 33*, on the latest information provided by the Director of Water Supplies:

- it was not clear as to why it was necessary for the WSD to provide a longer rest break for the MR IIs (i.e. a total of 40 minutes each day for weekdays) than that for uniformed police officers (i.e. about 30 minutes every day). It appeared that there was a need for the Secretary for the Civil Service to critically review this matter and set guidelines to help departments ensure that they did not provide excessive time for relaxation;
- the deletion of 1,085 meter reading routes which resulted in a surplus of 13 staff members represented an increase in staff productivity. The Public Accounts Committee (PAC) could consider whether the Director of Water Supplies should conduct an exercise to benchmark the productivity of MR IIs

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with their counterparts in the public utility companies to ensure that the MR IIs' productivity was comparable to that of their counterparts; and

- regarding the deployment of the 13 surplus staff members to perform final reading and other office work, the PAC could consider whether the Director of Water Supplies should take into account the practices adopted by comparable public utility companies. Furthermore, in order to ensure that the 13 surplus staff members were gainfully utilised, it would also be necessary for the Director of Water Supplies to closely monitor the utilisation of these staff, and to submit a report on their utilisation to the PAC in six months' time.

The Census and Statistics Department (C&SD)

21. The Committee noted that under the existing daily reporting system, field officers of the C&SD were required to return to the office to receive new assignments and to hand in the completed questionnaires for further processing for at least once a week. However, they were not required to give a detailed account of the tasks performed and the time spent. In this regard, the Committee asked how the work of the field officers was monitored. **Mr Frederick HO Wing-huen, Commissioner for Census and Statistics**, said that:

- though the field officers were required to return to their offices once a week, they were required to make daily reports to their offices for the work done the previous day. Their supervisors could make use of these reports to monitor their performance and the progress of the surveys;
- the emphasis of the existing monitoring system was placed on the quality of data obtained. The C&SD was also concerned about the output of the field officers i.e. the number of cases completed each day in respect of each survey;
- the workload of individual field officers was also monitored. Adjustment had to be made if there were noticeable differences in the work profiles of the field officers. If some officers had difficulties completing their assignments within the required time-frame, then other officers would be asked to share the workload. Officers who were often behind schedule would be closely monitored;
- in the past, the C&SD was not too concerned as to whether the field officers had worked the conditioned hours. Since the publication of the Audit Report,

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the C&SD had strengthened the control over field officers by requiring them to fill in detailed time sheets and be more accountable for the time spent on various duties. However, it would not be desirable if the field officers spent too much time on keeping the time-logs. A balance had to be struck between the need to monitor the performance of the field officers and their productivity;

- the C&SD considered that sufficient information could be generated from the time-logs to enable the management to analyse the work profile of field officers. This would facilitate the planning of work and scheduling of itineraries, and enhance efficiency within the C&SD; and
- the C&SD was confident about the accuracy of the data and the quality of the field work.

22. In response to the Committee's concern about the significant number of futile trips made by field officers on the date selected by Audit for review, the **Commissioner for Census and Statistics** explained that:

- regarding the nine field officers identified in paragraph 100 of the Audit Report, there were difficulties in contacting the respondents concerned. The majority of these respondents were contractors and could not be easily contacted even by telephone. The field officers had no choice but to visit them. These visits were often made in between other scheduled visits;
- field officers also encountered difficulties in identifying the respondents over the telephone. That was why they had to make the field visits to locate these respondents;
- in future, the field officers would be encouraged to make appointments with the respondents as far as possible; and
- there were guidelines for field officers to follow in determining the number of futile trips that they could make. Officers with a high rate of futile trips would be checked by their supervisors.

23. With reference to the Audit observations that there were doubts in 25 cases as to whether the field officers had actually contacted the respondents through the claimed mode

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of contact, the Committee asked what follow-up actions had been taken about these discrepancy cases and whether there was a need to improve the monitoring system. The **Commissioner for Census and Statistics** said that:

- there was no conclusive evidence to prove that the 25 field officers concerned had been involved in irregularities;
- the C&SD had reservations about the Audit review which was conducted some two months after the original survey. The long time lag could have brought about memory errors;
- the C&SD had adopted an indirect method in conducting the re-verification exercise in order to avoid embarrassing or annoying the respondents. Results of the re-verification exercise should be given due weight, along with those from Audit's checking exercise, each undertaken in their different circumstances;
- the C&SD would take heed of the doubts that had been revealed by Audit in respect of the discrepancy cases. Investigation would be conducted on ten of the 25 cases and the performance of the field officers concerned would be evaluated;
- after the publication of the Audit Report, the C&SD had immediately set up a working group to review the existing reporting system. Field officers were required to give detailed time sheets and were reminded to make accurate records of the work done. This arrangement would be reviewed in two months' time; and
- the C&SD had established another working group at a more senior level to review the monitoring mechanism to see if there was room for improvement and to examine how the efficiency of the department could be further improved in the long run, for example, by contracting out some of the functions of the department.

24. Noting that the C&SD and Audit had different views on the reliability of the independent evidence from the respondents and the conclusion drawn by the C&SD that there was no conclusive evidence to prove that irregularities had been involved, the Committee asked whether any disciplinary action would be taken against the field officers concerned. The **Commissioner for Census and Statistics** said that:

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- there was no major disagreement between the C&SD and Audit. Their working relationship had always been good; and the two departments were working together to identify problems and to look for room for improvement in the monitoring of field officers;
- the C&SD had always paid due regard to the quality of the data obtained. In order to ensure that the data collected were accurate, the management would closely monitor the internal checking system and staff productivity; and
- the problems identified would be followed up and the number of cases involved would be below 15. As Audit reviewed the activities of the field officers only on 4 May 1998, the C&SD would check the past work records of these officers to determine if there was any ground for suspecting the truthfulness of their reports. In taking disciplinary action, consideration would be given to fairness to the field officers concerned and the morale of the staff in general.

The **Secretary for the Civil Service** added that the Civil Service Bureau would discuss with the C&SD the need for disciplinary action to be taken. First of all, they had to ascertain that there was sufficient evidence to warrant the action.

25. On the question as to whether sufficient evidence had been gathered, **Mr Dominic CHAN Yin-tat, Director of Audit**, said that what Audit had done had produced sufficient and substantive evidence. Since the Commissioner for Census and Statistics had undertaken to check the past work records of the field officers concerned, further Audit action would not be necessary at this stage.

26. The **Commissioner for Census and Statistics** advised the Committee in his letter of 11 December 1998 in *Appendix 34* that the C&SD had carried out further investigations and made reference to other relevant information. A Staff Management Case Conference had also been held with the Civil Service Bureau and the Department of Justice to consider if any disciplinary action was justified in respect of the 15 field officers involved in the 25 discrepancy cases. It was agreed that:

- no disciplinary action should be taken against 11 of the officers;
- strong advice should be given to two of the officers, highlighting the need to

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observe discipline and to keep an accurate record to account for their daily work; and

- there was ground to investigate two of the officers further under the Public Service (Administration) Order, with due reference to corroborative evidence from records of work other than that performed on 4 May 1998.

The Government Supplies Department (GSD)

27. The Committee noted that the surprise inspection conducted by Audit at the Government Logistics Centre on 19 May 1998 revealed that:

- 46 per cent of the members of the delivery teams arrived after the official reporting time;
- a grace period of 25 minutes was allowed; and
- 38 out of 90 team members did not enter the correct arrival times in the attendance books.

The Committee also noted that the examination by Audit of the job sheets for the deliveries made on 18 May 1998 revealed that 43 per cent of the deliveries reportedly made in the afternoon might have been made before the lunch break. In the light of these findings, the Committee asked whether the GSD would tighten up the control of attendance and conduct a review on the utilisation of the delivery teams. **Mr Nigel C L Shipman, Director of Government Supplies**, said that:

- the practice of allowing a grace period of 25 minutes was explicitly contrary to the Internal Standing Circular which the GSD had issued and was in force at the time of the Audit inspection. It was stated in the Circular that a red line should be drawn by the supervisors in the attendance book at the normal starting time and thereafter late-comers would sign below that line. He considered that the supervisors had exercised excessive discretion in allowing the grace period;
- since the Audit review, the GSD had issued a revised circular which clearly stated that the relevant provision had to be strictly enforced. Allowance would only be given to those staff who were already in the queue by the normal starting time to sign the book before the red line was drawn;

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- one explanation for the inaccurate entries in the attendance books was that the team members might have entered the Centre before the official starting time, but had gone to attend to other business before signing the attendance books. The revised circular had clearly stated that the team members should record the time of signing as recorded by the wall clock in the room, even though they might have entered the building a few minutes earlier;
- the GSD was considering replacing the attendance books by a clock with punch cards. The device would cost about \$4,000 and would be installed soon;
- investigations had been conducted on the differences between the delivery times recorded by the delivery teams on their job sheets and the delivery times subsequently advised by the receiving offices. The delivery teams had vehemently maintained that their own records were accurate. The GSD could not proceed to take disciplinary action as there was no sufficient evidence to prove malpractice; and
- however, the GSD had tightened the procedures. Receiving officers were requested to record the times of receipt on the delivery forms.

28. The **Director of Government Supplies** advised the Committee in his letter of 11 January 1999 in *Appendix 35* that four time clocks had been installed at the Government Logistics Centre. As from 11 January 1999, staff were required to punch their time of arrival and departure by means of the time clocks, thereby putting beyond doubt the accuracy of the attendance records. A copy of the revised GSD Internal Standing Circulars (No.11/98) was forwarded to the Committee.

29. In response to the Committee's enquiry as to what disciplinary action had been taken, the **Director of Government Supplies** said that:

- counselling had been given to the staff who were found to be late on the date of the Audit inspection. It had been made clear to them what they had done was wrong and that they would have to be punctual in future; and
- the senior staff had been interviewed. They claimed that the grace period of 25 minutes was a long-standing practice. This was a matter for further

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investigation and appropriate action would be taken if necessary.

30. The **Director of Government Supplies** advised the Committee in his letter of 11 December 1998 in *Appendix 36* that:

- no disciplinary action against 41 delivery team members was warranted, as there was no evidence that any of them reported for duty after 8:15 am, and because the inaccurate entries in the attendance books by 38 team members was believed to be a practice tolerated by their supervisors and managers. This view was shared by the Civil Service Bureau;
- consideration was being given as to whether disciplinary action should be taken against the managers and supervisors of the Government Logistics Centre for not enforcing the departmental rules on attendance;
- the GSD was not in a position to take disciplinary action against the delivery teams for allegedly making inaccurate entries in the job sheets, as it had not been established beyond reasonable doubt that malpractice had taken place; and
- in addition to requesting receiving offices to record the time of receipt of goods on the delivery forms, the GSD was considering the value of installing a vehicle tracking system.

31. With reference to the comment made by some Heads of Department that the disciplinary procedures were cumbersome and it was very difficult to take disciplinary action, the Committee asked whether the Director of Government Supplies had encountered similar problems. The **Director of Government Supplies** said that:

- it had yet to be determined whether there was a case for further and more formal disciplinary action. Clearly, such action had to be fair and consistent with the disciplinary procedures of the civil service; and
- there were clearly defined disciplinary procedures for Heads of Department to follow. If these procedures could be simplified, it would be more effective for the management to take disciplinary action against the relatively simple and straightforward offences such as habitual late attendance.

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32. On the same issue, the **Secretary for the Civil Service** said that:

- the Administration had kept the disciplinary procedures under review and had delegated more power to the Heads of Department. The procedures had been simplified so that there was no need for the departments to refer every case to the Civil Service Bureau. Furthermore, it would only take a few months to deal with misconduct of a minor nature. For cases which had been substantiated, it would take about three months; and
- he understood that there was expectation for the procedures to be further streamlined. This was a part of the civil service reform and the Civil Service Bureau was reviewing it.

33. The Committee were concerned about the utilisation of the delivery teams and asked whether the GSD had considered contracting out its delivery service. The **Director of Government Supplies** said that:

- part of the delivery service had already been contracted out;
- the current policy for the delivery teams was that new staff would not be recruited on permanent terms. The number of delivery teams would be reduced upon the retirement of existing staff members, so that more work could be contracted out. However, if this was actively pursued, the question of staff redundancy might arise;
- it was difficult to compare the costs of a full-time service against those of the contractors. According to the best comparison that could be made, the costs of the GSD were about 16 to 19 per cent higher. Despite the fact that the GSD would like to retain its own direct service, it was incumbent upon the management to do all they could to reduce the costs of the department; and
- since he became the Director of Government Supplies in 1993, the number of staff had been reduced from 745 to about 500. He acknowledged that surplus capacity existed and that there was scope for further productivity improvements. This would be dealt with under the Enhanced Productivity Programme.

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34. With regard to the Audit observation that the early return of the delivery teams in the afternoon might be attributed to insufficient workload, the Committee asked whether the workload of the delivery teams had been reviewed and whether there was room for improvements in terms of staff productivity. The **Director of Government Supplies** said that:

- the GSD agreed with the Audit recommendation that the delivery teams should be given sufficient workload for the whole-day trips. On the one hand, the delivery teams would be given sufficient workload to perform up to the time for finishing work. On the other, they were also expected to finish their work as quickly as possible. If the delivery teams returned early, they had to perform other duties such as pre-loading the goods for the next journey;
- lorries could only be partially pre-loaded, as certain items such as dangerous and medical goods were not suitable for pre-loading. Hence, some additional loading had to be done in the morning. The GSD would ensure that its staff would do their work effectively and would be properly monitored;
- in terms of staff productivity, some improvements had been made. There used to be one driver and five team members in a normal delivery team. The number of team members had been reduced to four. Further reduction was possible. However, in order to achieve this, more flexible working practices had to be introduced. In the private sector, there was greater flexibility in the deployment of staff, for example staff assuming driving and non-driving duties and foremen sharing the manual work; and
- the GSD had a certain degree of flexibility in staff deployment. But it was not clear as to whether the staff from the delivery teams could be redeployed to perform other duties.

The **Secretary for the Civil Service** clarified that to a certain extent, more flexibility could be accorded. But the management had to discuss with the staff side first, if they were asked to perform duties which were outside their original job description.

35. In his letter of 19 January 1999 in *Appendix 37*, the **Secretary for the Civil Service** pointed out that:

- disciplinary action should not be taken merely for its deterrent effect. Punishment had to be in proportion to the offence and the process of

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investigation and disciplinary action had to be open and fair; and

- the Civil Service Bureau was reviewing the civil service disciplinary mechanism to ensure that disciplinary cases were processed promptly, equitably and impartially. In parallel, it was reviewing the procedures for retiring sub-standard performers in the public interest. The proposal to delegate authority to Heads of Department was also being considered. The staff side, the departments and the Public Service Commission would be consulted before the proposals were finalised.

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

Meter Readers of the Water Supplies Department (WSD)

- express dismay that some Meter Readers II (MR IIs) had failed to report for duty punctually and had made false entries in the attendance books;
- express serious concern that there were weaknesses in the system which allowed dishonest MR IIs to make off-site entries in the hand-held computers to tie in with the official time of finishing work so as to hide the fact that they had finished work early;
- express astonishment that the WSD had a staff surplus of 15 per cent and was able to delete 1,085 routes immediately following the route review;
- find the present arrangements unacceptable, i.e. the short working hours were due partly to the very generous provisions made for a variety of purposes, and that such provisions included a buffer to cater for contingencies, a one-hour provision for relaxation and, for some village routes, extra travelling time for lunch;
- condemn the senior management of WSD for:
 - (i) failing to give sufficient work for the MR IIs to perform;
 - (ii) condoning slackness in the department; and
 - (iii) failing to set up:

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- (a) a spot-checking system to control the attendance of the MR IIs while performing outdoor work; and
 - (b) a proper system of control which is conducive to compliance with good working practice and discipline;
- express grave dismay and astonishment that the Director of Water Supplies commissioned the Hong Kong Productivity Council, at a cost of \$198,000, to undertake the Time and Method Study on routine meter reading, a task which should be within the scope of management duty, expertise and knowledge of the WSD;
- recommend that the Director of Water Supplies should:
 - (i) build in an audit trail in the new computer system to provide proper records for verification and periodic review of the attendance of MR IIs;
 - (ii) abolish the various generous time allowances provided to MR IIs and use overtime work to cater for contingencies;
 - (iii) submit a report regarding the deployment of the 13 surplus staff to the Committee in six months' time;
 - (iv) conduct an exercise to benchmark the productivity of MR IIs with their counterparts in the public utility companies; and
 - (v) actively evaluate the possibility of contracting out the work of meter reading;

Field Officers of the Census and Statistics Department (C&SD)

- express serious concern that weaknesses in the monitoring system leave open the possibility for some field officers to make false claims and to give misleading information on:
 - (i) face-to-face interviews which had been conducted;
 - (ii) futile trips which they had made; and

Monitoring of outdoor staff

- (iii) the hours they had actually worked;
- express dismay that the senior management has failed to monitor closely the performance of the field officers concerned and that:
 - (i) there were no clear procedures to ensure the proper approval and documentation of sick leave taken by the field officers; and
 - (ii) there was a lack of documentation of the work done and time spent by the field officers;
- note that the Commissioner for Census and Statistics has implemented various improvement measures to monitor the work of the field officers including the completion of detailed time sheets, the performance of post-survey checking and the review on the keeping of time-logs on field work and related checking mechanisms;
- recommend that the Commissioner for Census and Statistics should critically review the costs of field enumeration work and consider the option of contracting out;
- wish to be kept informed of the outcome of the improvement measures and the review of the costs of field enumeration work;

Delivery teams of the Government Supplies Department (GSD)

- express dismay at the delivery team members' high rate of late attendance and that the reliability of the attendance books was questionable;
- condemn the senior management for not strictly enforcing the Internal Standing Circular to prevent granting excessive grace periods for duty reporting;
- urge that in the light of the availability of clear Internal Standing Circular, the Director of Government Supplies should seriously consider taking disciplinary actions against the managers and supervisors of the Government Logistics Centre of the GSD for not enforcing the departmental rules on attendance and tolerating the existence of such malpractice;
- condemn the senior management of GSD for failing to give sufficient work

Monitoring of outdoor staff

for the delivery teams to perform and for condoning slackness in the department;

- express serious concern that weaknesses in the monitoring system leave open the possibility for some of the delivery teams to provide inaccurate information in the job sheets to cover up their idle time;
- consider that the Director of Government Supplies has not given due weight to the independent evidence given by the receiving offices, and that he has accepted too readily the team members' reaffirmation of the correctness of the delivery times recorded in the job sheets;
- note that the Director of Government Supplies has:
 - (i) taken actions to improve the productivity of the teams;
 - (ii) tightened arrangements for monitoring the attendance of the delivery teams; and
 - (iii) requested the receiving offices to act as an independent source of verification of the delivery times;
- recommend that the Director of Government Supplies should critically review the costs of the delivery service and actively evaluate the possibility of contracting out the work;
- wish to be kept informed as to when the vehicle tracking system will be installed;

The Administration's response

- note the prompt response of the Chief Secretary for the Administration and the Secretary for the Civil Service to the Director of Audit's Report, and support the Secretary for the Civil Service's circular issued on 19 November 1998 urging the three Heads of Department concerned to ensure that any irregularities are followed up and prompt remedial action is taken, and all Heads of Department to review immediately the existing systems on staff supervision and to give a progress report on the review and the way forward in three months' time;

Monitoring of outdoor staff

- recommend that the Secretary for the Civil Service should draw up clear guidelines on outdoor work to help government departments ensure that the various provisions for contingencies are not excessive;
- consider that, although this Audit Report has only revealed weak internal control systems in three departments, similar problems concerning the monitoring of outdoor staff may exist in other departments;
- recommend that the Director of Audit should conduct similar investigations into the operations of other government departments, and wish to be kept informed of the progress;

Disciplinary actions

- note that the Chief Executive has recently stated that the disciplinary procedures in the civil service should be streamlined to ensure that an effective reward and punishment system is maintained;
- note that the Secretary for the Civil Service has stated that Heads of Department have flexibility in staff deployment and authority to take disciplinary action against lower and middle rank staff;
- urge the Secretary for the Civil Service to proactively:
 - (i) encourage the Heads of Department to exercise these flexibility and authority without compromising fairness;
 - (ii) assist these Heads of Department to manage their workforce with maximum flexibility; and
 - (iii) follow up on the irregularities identified and to ensure that prompt remedial actions including appropriate disciplinary actions are taken by the Heads of Department; and
- urge the Chief Secretary for the Administration to release the reports from the Heads of Department concerned and to inform the Committee of the Administration's views and final decisions made.

Monitoring of outdoor staff

Chapter 10

Construction of the Hong Kong Convention and Exhibition Centre Extension

The Committee noted that the Director of Audit had reviewed the construction of the Extension to the Hong Kong Convention and Exhibition Centre (HKCEC) to ascertain whether the project was properly managed with due regard to economy. The main areas of the Audit review were:

- changes in project scope;
- over-spending of project budget;
- roofing system of the Extension; and
- selection of the Extension as the venue for the Handover Ceremony and the World Bank Group(WBG)/International Monetary Fund (IMF) Meetings.

2. The Committee noted that in February 1994, the Finance Committee (FC) approved a capital subvention of \$4,829 million to the Hong Kong Trade Development Council (TDC) to meet the full cost of constructing the HKCEC Extension. In view of the size of the capital subvention, the Government entered into an Entrustment Agreement with the TDC with a view to facilitating the completion of the Extension within budget by the target date of June 1997. According to the Entrustment Agreement, the TDC had the authority to amend the size and detailed provisions of the building works for budget control or operational reasons if the following conditions were met:

- the changes did not exceed plus or minus 15 per cent for the individual areas of the core accommodation;
- the construction gross floor area of the project did not exceed 147,500 square metres; and
- the budget of the Extension of \$4,829 million was not exceeded.

A Project Control Committee (PCC) was also set up by the Government to monitor and control the progress of the project and the project budget. It had the authority to approve changes to the size and detailed provisions of the building works for budget control or operational reasons without exceeding the budget of the Extension project. The prior approval of the FC was required for all changes with costs exceeding the project's budget.

3. According to Audit, the construction of the Extension was based on a revised

Chapter 10

Construction of the Hong Kong Convention and Exhibition Centre Extension

design. As a result of the changes in project scope, the construction gross floor area was

Construction of the Hong Kong Convention and Exhibition Centre Extension

increased to 157,831 square metres and an additional construction cost of \$233 million was incurred. Audit also pointed out that the changes had not been submitted to the PCC for endorsement.

4. With regard to the admission made by the Secretary for Trade and Industry in paragraph 22 of the Audit Report that there was some procedural omission, the Committee asked why the Administration had still maintained that proper procedures had been followed during the decision-making process. **Mr CHAU Tak-hay, Secretary for Trade and Industry**, explained that:

- apart from the procedural omission identified in the Audit review, proper procedures had been followed in the decision-making process;
- during the design development phase of the project, he and the Secretary for Works were asked to consider the proposal to increase the gross floor area of the project. They asked the TDC to confirm that the project could still be completed within the budget of \$4,829 million approved by FC. This was affirmed. However, the Administration had not taken the final procedure of putting the proposed increase in accommodation to the PCC for formal approval; and
- as Chairman of the PCC, he held himself responsible for the omission and would like to apologise to the public, the Legislative Council and the parties concerned.

5. The Committee noted that in paragraph 23, the Secretary for the Treasury had explained that the absence of endorsement by the PCC was due to an administrative oversight which was more a matter of human error than any systemic failure which warranted further investigation. In this connection, the Committee asked what steps would be taken by the Administration to prevent a recurrence of such negligence or omission in future. **Miss Denise YUE Chung-yee, Secretary for the Treasury**, said that:

- the administrative oversight only referred to the fact that the changes in the project scope had not been submitted to the PCC for endorsement;
- if there was any implication that the Administration failed to seek the FC's approval for expansion of the scope of the project, this was not the case. It was clearly stated in paragraph 5.2 of the Entrustment Agreement that so long

Construction of the Hong Kong Convention and Exhibition Centre Extension

as the total Government expenditure was not exceeded, no further approval from the FC for changes to the project was required. As there was no increase in the level of the Government's contribution other than the \$4,829 million, the Administration had not sought further approval from the FC;

- however, the Administration originally undertook to provide regular progress reports on the work to the FC. In the event, the Administration only submitted one progress report and the changes in the scope of the project were not mentioned; and
- since the publication of the Audit Report, the Finance Bureau had established a dedicated team to follow up Government's undertakings to the FC and to remind relevant policy bureaux and departments to take necessary and appropriate action. This new mechanism was meant to prevent a recurrence of such omissions.

6. The Committee referred to the Entrustment Agreement between the Government and the TDC and asked whether it was the case that if either the budgetary ceiling or the gross floor area was exceeded, this would have to be reported to the FC for approval. **The Secretary for the Treasury** said that:

- when the original application was put to the FC, the project was still in a conceptual stage and detailed project plans were not yet available. Quite often there could be changes in the scope and design of public works projects following the FC's approval. If these were not significant or substantial, the Administration would not revert to the FC just for that purpose; and
- however, she acknowledged that there was an administrative oversight as the Administration only made one progress report to the FC.

7. The Committee were concerned as to whether this was purely an administrative oversight or whether it was due to the need to have the project completed on time for the Handover Ceremony that the Administration did not revert to the FC to forestall any delay. **The Secretary for the Treasury** reiterated that while she agreed that the Administration had the responsibility to make progress reports to the FC, she did not see the need for the Administration to seek further approval from the FC. In fact, the Administration was only obliged to revert to the FC if the Government's budget exceeded \$4,829 million. **The Secretary for Trade and Industry** added that there was absolutely no consideration given

Construction of the Hong Kong Convention and Exhibition Centre Extension

to the HKCEC as the venue for the Handover Ceremony in 1994 when the gross floor area was increased.

8. In response to the Committee's concern as to whether there were any vetting procedures within the Government for approving material changes to project plans, the **Secretary for the Treasury** said that the FC paper stated clearly that the funding of \$4,829 million was for the TDC to develop the Extension. The Entrustment Agreement was appended to the FC paper. In her view, neither the Government nor the TDC had done anything which required the FC's further approval.

9. Referring to the statement made by the Secretary for Trade and Industry at a meeting of the PCC on 18 November 1993 that the Administration should not repeat the mistake of the Hong Kong University of Science and Technology project in which significant delays were experienced, the Committee asked why the Administration was still negligent. The **Secretary for Trade and Industry** said that the Administration had not repeated the debacle of project delays. As a matter of fact, the PCC had made best endeavours to discharge its responsibilities. The only omission was the failure to seek the PCC's final approval for increasing the gross floor area. In the event, the proposed expansion of Exhibition Hall 3 of the HKCEC Extension had proved to be useful, as the venue was used for two major events i.e. the Handover Ceremony and the Hong Kong Special Administrative Region Inauguration Ceremony.

10. The Committee noted that in Table 2 of the Audit Report, a number of government departments had expressed reservation on the TDC's recommendation to increase the area of Exhibition Hall 3. In this regard, the Committee asked the Secretary for Works for his professional opinion on whether, with the gross floor area expanding by 8.5 per cent, there was much chance of the project keeping within budget, or whether there were major risks of overspending. **Mr KWONG Hon-sang, Secretary for Works**, said that:

- without the detailed building plans at the design development stage but having regard to the benefits that could be achieved, the Secretary for Works agreed in principle to the proposed increase in 1994; and
- in view of the fact that the entire building had a very big gross floor area and that the proposed expansion primarily involved revising the size of one level, though there were consequential changes elsewhere, he did not think that the

Construction of the Hong Kong Convention and Exhibition Centre Extension

budget ceiling would be exceeded.

The **Secretary for Trade and Industry** added that as the budget earmarked for reclamation did not have to be spent in full, the balance could be vired to meet part of the building costs. Furthermore, there was a 10 per cent contingency in the project budget. On 8 July 1994, the Administration wrote to the TDC to state that the scope could only be revised if the expenditure did not exceed the budget ceiling. On 17 August 1994, this provision was accepted by the Implementation Co-ordination Subcommittee of the TDC.

11. With reference to paragraph 28 of the Audit Report, the Committee noted the term in the Entrustment Agreement that the Government and the TDC would make “best endeavours” to complete the project by June 1997. As the Secretary for Trade and Industry was fully aware that the timing was very tight and that it might not be possible to achieve full opening of the new facility on the target completion date of June 1997, the Committee asked whether “best endeavours” was good enough. The **Secretary for Trade and Industry** explained that as the WBG and IMF Meetings were to be held in September 1997, specifying June as the target date provided several months for the facilities to be tested for smooth operation ahead of time. This time-frame was sensible and reasonable and the parties concerned had made their best endeavours to achieve it.

12. In reply to the Committee’s enquiry as to whether the deadline of June was legally binding, the **Secretary for Trade and Industry** said that:

- the relationship of the Government and the TDC was not the same as that with commercial organisations. Both were working hand in glove in a spirit of mutual understanding and trust. If the target date of June would not be met, there were still several months to serve as a cushion. The most important point was that the delay would not give rise to any litigation and it was unlikely that the Government would suffer any losses;
- if there were a loss, it would be a loss for the TDC because the revenue that could have generated from the HKCEC Extension would be foregone; and
- the TDC did have a formal agreement with the contractor which was legally binding.

Mr Michael SZE, Executive Director of HKTDC, informed the Committee that the actual target completion date was 2 June 1997. The TDC had all along worked according to the

Construction of the Hong Kong Convention and Exhibition Centre Extension

Entrustment Agreement and was fully aware that Hong Kong's reputation was at stake, as the WBG and IMF Meetings had to be held at the HKCEC Extension.

13. According to Audit, as at 31 March 1998, the estimated overall out-turn cost of the project exceeded the budget approved by the FC by \$219 million, which was mainly due to the additional expenditure on the changes in project scope, the payment for acceleration and claims and the design enhancement items. The Committee asked whether this constituted over-spending. The **Secretary for Trade and Industry** explained that:

- the commitment given to the FC was that no more Government funding would be required if the project costs were to go beyond \$4,829 million;
- there was no over-spending on the part of the Government; and
- eventually, the project costs exceeded the original budget by about \$150 million. But the excess was met by the TDC.

14. Having regard to the fact that the Government had agreed to take the additional cost of the Extension into account in its review of the TDC's funding requirements which was scheduled for 1998, the Committee were concerned as to whether the TDC funds constituted public money. The **Secretary for Trade and Industry** said that:

- the TDC's reserves did not represent part of taxpayers' money; and
- the revenue generated from the existing HKCEC had been set aside in a separate account and was used for funding the HKCEC Extension to improve the overall facility.

15. The Committee then asked whether funds originally earmarked for the reclamation works which were not fully spent should have been returned by the TDC to the Government. The **Secretary for the Treasury** explained that:

- the budget for the Government's contribution to the HKCEC Extension was approved as a lump sum; and
- there was a breakdown of the main components, but virement within the budget was permissible.

Construction of the Hong Kong Convention and Exhibition Centre Extension

16. Turning to the Audit's concern about the use of a 20-year return period wind load, instead of a 50-year one, for 5 per cent of the roof sheets of the HKCEC Extension, the Committee asked whether the quality of the roofing system had been compromised and whether there was still water leakage in the Extension. The Committee were also concerned that the non-conformance reports were indicative of the existence of defects in the roofing system. The **Executive Director of HKTDC** and **Mr Niels Kraunsoe, Chief Executive of the HKCEC**, explained that:

- there was no current water leakage through the roof;
- the non-conformance reports related to inspections of workmanship, not the workmanship itself;
- the non-conformance reports were related to 1.5 per cent of the total roof area which the architects had not been able to inspect;
- these particular roof areas had not had any water leakage problems;
- the TDC had used the non-conformance reports to exercise leverage in negotiating the contract for the maintenance of the roof. The contract had been signed for maintenance of the roof in good condition;
- though the roof had no water leakage problem, it was still possible for small quantities of water to leak through windows, air-conditioning openings, louvres and possibly even concrete;
- as the HKCEC Extension was 2,000 times the size of a domestic building, there could be drips of water in one or two places;
- if the ventilation wells for the air-conditioning and other systems became blocked, the water could spill over the louvres and water could get into the building; and
- furthermore, if air-conditioning were not turned on all the time in a high humidity environment, when air conditioning was switched on there could be condensation causing drips, but the phenomenon had nothing to do with leakage.

Construction of the Hong Kong Convention and Exhibition Centre Extension

17. The Committee were concerned about the quality of the roofing system and asked whether the Administration was satisfied with the standards adopted for the system. In reply, **Mr PAU Shiu-hung, Director of Architectural Services**, confirmed that an assessment report had been put to experts in the United Kingdom and Canada. The roofing standard definitely complied with the 20-year return period; for the 50 year return period, it should still be acceptable.

18. In order to ascertain whether the water leakage problem still existed, the Committee asked whether there were still drip trays in the HKCEC Extension to collect water. The **Chief Executive of the HKCEC** said that:

- drip trays were put in initially because if the connection points of the 240 pipes collecting water from the roof were not welded together too well, there might be water seepage. However, the defects had now been rectified; and
- there were eight drip trays in the roof, and these had been put in as a precaution to identify any location of water seepage. Currently, there were still one or two trays in place, simply because they had not yet been removed.

19. In respect of the Audit observations on the selection of venue for the World Bank Group/International Monetary Fund (WBG/IMF) Meetings, the Committee asked whether the Government Stores Regulations were complied with in the award of the contract by the Hong Kong Monetary Authority (HKMA) to build the offices for the WBG and IMF Meetings by single tender. The **Secretary for the Treasury** and **Mr Norman CHAN Tak-lam, Acting Chief Executive of the HKMA**, explained that:

- the situation was unique. In order to have the temporary offices in the Extension built in time, the only way was to get the Extension's contractor to undertake the work;
- the Finance Bureau was aware of the situation. Architectural Services Department (ASD) was involved in vetting and negotiating with company concerned on the overall cost estimate; and
- there was no contravention of any guidelines.

Construction of the Hong Kong Convention and Exhibition Centre Extension

20. The Committee asked whether the HKMA had considered other options for locating the offices and whether it had paid sufficient regard to economy. The **Acting Chief Executive of the HKMA** explained that:

- using the Extension was the best way forward;
- other options had been considered, in case the Extension project was not completed by June 1997. Using Wanchai Government Offices or one of the hotels nearby would be possible contingency plans;
- however, there would be additional costs of removing departments from the Immigration and Revenue Towers. There would also be consequential refurbishment costs estimated to exceed \$100 million; and
- the FC paper made it clear that the two options were to use the HKCEC Extension or Wanchai Government Offices. In the event, the HKCEC Extension was available on time.

21. Upon the Committee's request, the **Secretary for the Treasury** confirmed in her letter of 18 December 1998 that the award of the contract to Company A for the provision of meeting and office venues in the HKCEC Extension had not breached the tender procedures stipulated in the Stores and Procurement Regulations. The steps taken in processing the relevant tender were set out in the letter in *Appendix 38*.

22. In his letter of 18 January 1999 in *Appendix 39*, the **Director of Audit** reiterated his observation that there was inadequate assurance that the Government had been fairly charged for the construction works performed by Company A because:

- the HKMA proceeded to negotiate with Company A in July 1995 although the HKMA considered that the estimated construction cost of \$182 million quoted by Company A was extremely high and the ASD had not yet vetted Company A's quotation until September 1995; and
- the HKMA had not obtained the ASD's confirmation that Company A's final construction cost estimate of \$193 million submitted on 8 February 1996 was reasonable and justified.

Construction of the Hong Kong Convention and Exhibition Centre Extension

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

- express grave concern that the adoption of the revised design had not been endorsed by the Project Control Committee (PCC), which was set up by the Government to monitor and control the progress of the project and the project budget;
- acknowledge the Secretary for Trade and Industry's apology made at the public hearing for the procedural omission that formal approval of the PCC for the revised design was not obtained prior to commencement of construction work, and the Secretary's admission that it was a matter of human error for which he held himself accountable;
- consider that all other members of the PCC, who were closely involved during the design development and decision-making process for the revised design, should have reminded the Secretary for Trade and Industry, as Chairman of the PCC, to convene a meeting to formally endorse the revised design, and that the Administration should avoid such human errors in future projects;
- express grave concern that the progress report on the Extension project submitted to the Finance Committee (FC) in December 1994 did not contain all the material information about the project, and that it was the only progress report submitted to the FC notwithstanding that the Administration had undertaken to provide periodic reports to the FC when the FC's approval was sought;
- acknowledge the Secretary for the Treasury's apology for failing to follow up the Administration's undertaking that there would be regular progress reports to the FC, and the Secretary's admission that it was an oversight on the part of the Administration that only one progress report had been submitted to the FC;
- note the Secretary for the Treasury's undertaking that for major projects undertaken by the Government in future, the Administration will keep the FC informed on a timely basis of any significant project slippage, cost overruns and any major departure from the funding submissions to the FC;
- urge that for future government projects of similar magnitude and scale which have to be completed within a tight schedule, the Administration should have resolved all contractual liability at an early date to ensure that the best possible workmanship is obtained and all possible latent defects and future difficulties

Construction of the Hong Kong Convention and Exhibition Centre Extension

are dealt with properly;

- express dissatisfaction that, in October 1996 when funding approval was sought for the cost of holding the Handover Ceremony and other related activities, the Administration did not inform the FC of the full financial implications of selecting the Extension as the venue for the Handover Ceremony;
- express dissatisfaction that the Hong Kong Monetary Authority (HKMA) proceeded to negotiate with Company A on the basis of its quotation despite the HKMA's view that the price quoted by Company A was extremely high and the fact that the Architectural Services Department (ASD) had not properly vetted Company A's quotation;
- express concern that there was inadequate assurance that the Government had been fairly charged for the construction works performed by Company A, as there were no records to indicate that the ASD had confirmed Company A's final construction cost estimate as reasonable and fully justified; and
- recommend that in future building construction projects, especially those which involve substantial public funds, the Heads of user department should conduct negotiations with tenderers only after the tenderers' quotations have been fully vetted by the ASD, or by a department which has the technical expertise to undertake such a vetting function.

**SIGNATURES OF THE CHAIRMAN, DEPUTY CHAIRMAN AND
MEMBERS OF THE COMMITTEE**

Eric LI Ka-cheung
(*Chairman*)

Fred LI Wah-ming
(*Deputy Chairman*)

David CHU Yu-lin

NG Leung-sing

Sophie LEUNG LAU Yau-fun

LAU Kong-wah

Emily LAU Wai-hing

**SIGNATURES OF THE CHAIRMAN, DEPUTY CHAIRMAN AND
MEMBERS OF THE COMMITTEE**

3 February 1999

**CHAPTERS IN THE DIRECTOR OF AUDIT'S REPORT NO. 31
DEALT WITH IN THE PUBLIC ACCOUNTS COMMITTEE'S REPORT**

Director of Audit's Report No. 31 Chapter	<u>Subject</u>	P.A.C. Report No. 31 Chapter
1	Relocation of the General Post Office	1
2	Recoverability of the outstanding advances to the UNHCR	2
3	The refuse collection service of the Regional Services Department	3
6	Footbridge connections between five commercial buildings in the Central District	4
7	Management of electricity consumption by the Government	5
8	Information technology projects, staff productivity and central registration of documents	6
9	Canteens in government premises	7
10	Industrial safety and health	8
12	Monitoring of outdoor staff	9
13	Construction of the Hong Kong Convention and Exhibition Centre Extension	10

**RULES OF PROCEDURE OF
THE LEGISLATIVE COUNCIL OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION**

72. Public Accounts Committee

(1) There shall be a standing committee, to be called the Public Accounts Committee, to consider reports of the Director of Audit –

- (a) on the accounts of the Government;
- (b) on such other accounts required to be laid before the Council as the committee may think fit; and
- (c) on any matter incidental to the performance of his duties or the exercise of his powers as the committee may think fit.

(2) The committee shall also consider any report of the Director of Audit laid on the Table of the Council which deals with examinations (value for money audit) carried out by the Director relating to the economy, efficiency and effectiveness of any Government department or public body or any organization to which his functions as Director of Audit extend by virtue of any Ordinance or which receives public moneys by way of subvention.

(3) The committee shall consist of a chairman, deputy chairman and 5 members who shall be Members appointed by the President in accordance with an election procedure determined by the House Committee. In the event of the temporary absence of the chairman and deputy chairman, the committee may elect a chairman to act during such absence. The chairman and 2 other members shall constitute a quorum.

(4) A report mentioned in subrules (1) and (2) shall be deemed to have been referred by the Council to the committee when it is laid on the Table of the Council.

(5) Unless the chairman otherwise orders, members of the press and of the public shall be admitted as spectators at meetings of the committee attended by any person invited by the committee under subrule (8).

(6) The committee shall meet at the time and the place determined by the chairman. Written notice of every meeting shall be given to the members and to any person invited to attend a meeting at least 5 clear days before the day of the meeting but shorter notice may be given in any case where the chairman so directs.

(7) All matters before the committee shall be decided by a majority of the members voting. Neither the chairman nor any other member presiding shall vote, unless the votes of the other members are equally divided, in which case he shall have a casting vote.

(8) The chairman or the committee may invite any public officer, or, in the case of a report on the accounts of or relating to a non-government body or organization, any member or employee of that body or organization, to give information or any explanation or to produce any records or documents which the committee may require in the performance of its duties; and the committee may also invite any other person to assist the committee in relation to any such information, explanation, records or documents.

(9) The committee shall make their report upon the report of the Director of Audit on the accounts of the Government within 3 months (or such longer period as may be determined under section 12 of the Audit Ordinance (Cap. 122)) of the date on which the Director's report is laid on the Table of the Council.

(10) The committee shall make their report upon the report of the Director of Audit mentioned in subrule (2) within 3 months (or such longer period as may be determined by the Council) of the date on which the Director's report is laid on the Table of the Council.

(11) Subject to these Rules of Procedure, the practice and procedure of the committee shall be determined by the committee.

**Paper presented to the Provisional Legislative Council
by the Chairman of the Public Accounts Committee
at the meeting on 11 February 1998 on
Scope of Government Audit in the
Hong Kong Special Administrative Region -
'Value for Money Audits'**

SCOPE OF WORK

1. The Director of Audit may carry out examinations into the economy, efficiency and effectiveness with which any bureau, department, agency, other public body, public office, or audited organisation has discharged its functions.

2. The term "audited organisation" shall include -
 - (i) any person, body corporate or other body whose accounts the Director of Audit is empowered under any Ordinance to audit;
 - (ii) any organisation which receives more than half its income from public moneys (this should not preclude the Director from carrying out similar examinations in any organisation which receives less than half its income from public moneys by virtue of an agreement made as a condition of subvention); and
 - (iii) any organisation the accounts and records of which the Director is authorised in writing by the Chief Executive to audit in the public interest under section 15 of the Audit Ordinance (Cap. 122).

3. This definition of scope of work shall not be construed as entitling the Director of Audit to question the merits of the policy objectives of any bureau, department, agency, other public body, public office, or audited organisation in respect of which an examination is being carried out or, subject to the following Guidelines, the methods by which such policy objectives have been sought, but he may question the economy, efficiency and effectiveness of the means used to achieve them.

GUIDELINES

4. The Director of Audit should have great freedom in presenting his reports to the Legislative Council. He may draw attention to any circumstance which comes to his knowledge in the course of audit, and point out its financial implications. Subject to these Guidelines, he will not comment on policy decisions of the Executive Council and the Legislative Council, save from the point of view of their effect on the public purse.

5. In the event that the Director of Audit, during the course of carrying out an examination into the implementation of policy objectives, reasonably believes that at the time policy objectives were set and decisions made there may have been a lack of sufficient, relevant and reliable financial and other data available upon which to set such policy objectives or to make such decisions, and that critical underlying assumptions may not have been made explicit, he may carry out an investigation as to whether that belief is well founded. If it appears to be so, he should bring the matter to the attention of the Legislative Council with a view to further inquiry by the Public Accounts Committee. As such an investigation may involve consideration of the methods by which policy objectives have been sought, the Director should, in his report to the Legislative Council on the matter in question, not make any judgement on the issue, but rather present facts upon which the Public Accounts Committee may make inquiry.

6. The Director of Audit may also -

- (i) consider as to whether policy objectives have been determined, and policy decisions taken, with appropriate authority;
- (ii) consider whether there are satisfactory arrangements for considering alternative options in the implementation of policy, including the identification, selection and evaluation of such options;
- (iii) consider as to whether established policy aims and objectives have been clearly set out; whether subsequent decisions on the implementation of policy are consistent with the approved aims and objectives, and have been taken with proper authority at the appropriate level; and whether the resultant instructions to staff accord with the approved policy aims and decisions and are clearly understood by those concerned;

- (iv) consider as to whether there is conflict or potential conflict between different policy aims or objectives, or between the means chosen to implement them;
- (v) consider how far, and how effectively, policy aims and objectives have been translated into operational targets and measures of performance and whether the costs of alternative levels of service and other relevant factors have been considered, and are reviewed as costs change; and
- (vi) be entitled to exercise the powers given to him under section 9 of the Audit Ordinance (Cap. 122).

PROCEDURES

7. The Director of Audit shall report his findings on value for money audits in the Legislative Council twice each year. The first report shall be submitted to the President of the Legislative Council within seven months of the end of the financial year, or such longer period as the Chief Executive may determine. Within one month, or such longer period as the President may determine, copies shall be laid before the Legislative Council. The second report shall be submitted to the President of the Legislative Council by the 7th of April each year, or such date as the Chief Executive may determine. By the 30th April, or such date as the President may determine, copies shall be laid before the Legislative Council.

8. The Director's report shall be referred to the Public Accounts Committee for consideration when it is laid on the table of the Legislative Council. The Public Accounts Committee shall follow the rules governing the procedures of the Legislative Council in considering the Director's reports.

9. A Government minute commenting on the action Government proposes to take in respect of the Public Accounts Committee's report shall be laid on the table of the Legislative Council within three months of the laying of the report of the Committee to which it relates.

10. In this paper, reference to the Legislative Council shall, during the existence of the Provisional Legislative Council, be construed as the Provisional Legislative Council.

**Principal witnesses who appeared before the Committee
(in order of appearance)**

Mr LAI Kwok-ying, JP	Government Property Administrator
Mr HUI Ki-on	Commissioner of Police
Miss Denise YUE Chung-yea, JP	Secretary for the Treasury
Mr PAU Shiu-hung, JP	Director of Architectural Services
Ms Anissa WONG Sean-yea	Deputy Secretary for the Civil Service
Mr R D Pope, JP	Director of Lands
Mr LUK Ping-chuen, JP	Acting Postmaster General
Mr Allan CHIANG Yam-wang, JP	Acting Deputy Postmaster General
Mr TSANG Kwok-lam	Assistant Postmaster General
Mr Stephen IP Shu-kwan, JP	Secretary for Economic Services
Mr LAM Woon-kwong, JP	Secretary for the Civil Service
Mr HU Man-shiu, JP	Director of Water Supplies
Mrs Marie POON LOONG Po-yin	Business Manager, Director of Water Supplies
Mr Frederick HO Wing-huen, JP	Commissioner for Census and Statistics
Mr FUNG Hing-wang	Deputy Commissioner for Census and Statistics
Mr Nigel C L Shipman, JP	Director of Government Supplies
Mr A G Cooper, JP	Land Registrar
Ms Barbara MAK Wing-kum	Business Manager, Land Registry
Mr LAU Kam-hung, JP	Director of Information Technology Services

Mr John WONG Shek-chuen	Chief Systems Manager, Information Technology Services Department
Mr LEE Kai-fat	Acting Commissioner for Labour
Mr Dominic MAK Hung-kee	Assistant Commissioner for Labour
Mr KWONG Hon-sang, JP	Secretary for Works
Mr CHAU Tak-hay	Secretary for Trade and Industry
Mr Peter LO, JP	Acting Secretary for Home Affairs
Mr Norman CHAN Tak-lam, JP	Acting Chief Executive, Hong Kong Monetary Authority
Mr Philip TSE Chiu-mun	Senior Manager, Hong Kong Monetary Authority
Mr Michael SZE C C, JP	Executive Director, Hong Kong Trade Development Council
Mr Niels Kraunsoe	Chief Executive, Hong Kong Convention and Exhibition Centre
Mrs Helen YU LAI Ching-ping, JP	Director of Regional Services
Mr Fred TING Fook-cheung	Deputy Director of Regional Services (Operations)
Mr LAI Kwok-tung	Assistant Director of Regional Services (Environmental Health Policy)
Ms Rhonda LO	Acting Assistant Director of Regional Services (Environmental Health Services)
Mr Patrick LAU Lai-chiu, JP	Acting Secretary for Planning, Environment and Lands
Mr Steve Barclay	Principal Assistant Secretary (Environment) ² , Planning, Environment and Lands Bureau
Mr Hugh B Phillipson, JP	Director of Electrical and Mechanical Services

Mr LEUNG Cham-tim, JP	Regulatory Services Controller, Electrical and Mechanical Services Department
Mr LAM Kam-kuen	Chief Engineer/Energy Efficiency, Electrical and Mechanical Services Department
Mr FUNG Wing-chuen	Chief Electrical and Mechanical Engineer, Water Supplies Department
Mrs Regina IP LAU Suk-yee, JP	Secretary for Security
Ms Sally WONG Pik-yee	Deputy Secretary for Security (3)
Mr Terence Pike	UNHCR Head of Sub-office in Hong Kong
Dr CHOI Yu-leuk, JP	Director of Buildings
Mr LAM Siu-tong	Chief Building Surveyor, Buildings Department
Dr Peter PUN Kwok-shing, JP	Director of Planning

**Introductory remarks by the Chairman
of the Public Accounts Committee,
the Hon Eric LI Ka-cheung, JP
at the first public hearing of the Committee
on Thursday, 3 December 1998**

Good morning, ladies and gentlemen. Welcome to this public hearing of the Public Accounts Committee.

For the benefit of the members of the public and other concerned parties who are interested, I would like to give a brief outline about the role and function of the Public Accounts Committee.

The Public Accounts Committee is a standing committee of the Legislative Council. It plays the role of a watchdog over public expenditure through consideration of the reports of the Director of Audit laid before the Council on the accounts and the results of value for money audits of the Government and of any organizations which receive income from public moneys.

For the Committee, public hearing is a crucial part of our work, the purpose of which is to explore the background and the facts surrounding the issues raised in the Director of Audit's reports. Our approach, as always, will be fact-finding and problem-solving rather than assigning blame and expressing opinions. I wish to emphasize that our aim in examining the issues raised in the Director of Audit's reports is that any observations we make and conclusions we draw are both constructive and positive. The objective of the whole exercise is to maintain and improve the high accounting standards of the Government of the Hong Kong Special Administrative Region, and to learn lessons from the past in order to improve control over expenditure and to ensure that every cent of public funds is spent with due regard to economy, efficiency and effectiveness.

Three Director of Audit's reports were tabled in the Legislative Council on 18 November 1998, namely his Report on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 1998 and his two Reports on the results of value for money audits completed between October 1997 and June 1998 and July and September 1998 respectively, i.e. Report Nos. 30 and 31. According to the paper tabled in the Provisional Legislative Council on 11 February 1998 on the Scope of Government Audit in the Hong Kong Special Administrative Region – 'Value for Money Audits', Report No. 30 should have been submitted to the President of the Provisional Legislative Council in April 1998. It was deferred due to the cessation of business of the Provisional Legislative Council after 8 April 1998 in view of the elections of the first Legislative Council on 24 May 1998. The Chief Executive later determined that Report No. 30 should be submitted to the President of the first Legislative Council no later than end October 1998.

Following our preliminary study of the Director's Report Nos. 30 and 31, the Committee have decided to look into 15 of the issues raised, and for this purpose we have invited the public officers and relevant parties concerned to appear before the Committee and answer our questions. Apart from this morning, we have also set aside the mornings of 7, 8 and 10 December for our public hearings. After we have studied the issues and taken the necessary evidence, we will produce our conclusions and recommendations which will reflect the independent and impartial judgement and views of the Committee. These recommendations will be made public when we report back to the Legislative Council within three months' time. Before then, we will not, as a committee or individually, be making any public comment on our conclusions.

I now declare the Committee to be in formal session.