

Legislative Council Panel on Public Service

Corporatisation of the Survey and Mapping Office of Lands Department

Introduction

At the last meeting of the Panel on 21 February 2000, when the item on Corporatisation of the Survey and Mapping Office (SMO) of Lands Department was discussed, Members and the five staff unions attending the meeting raised a number of points on the Government's proposal. This paper sets out our response to the points raised.

Suitability of the SMO as a candidate for corporatisation

2. As we have explained on many occasions, the main aim of corporatisation is to enhance the efficiency and cost effectiveness in the delivery of certain public services. It is one of the means to provide better services in appropriate cases. We consider that the SMO is a suitable candidate for corporatisation. This is because in providing the land survey and mapping services to the community over the years, the SMO has developed expertise in various areas and a valuable map database. The rapid development in information technology and electronic business has provided many opportunities for the SMO to expand its services. Corporatisation enables the SMO to make more efficient use of its valuable assets to realise these abundant opportunities and provide better services to its customers in a business environment.

3. As a department, the SMO is subject to all the government rules and procedures, which by and large are necessary for the running of the Government. However, these rules impose a lot of constraints to the SMO in the development of many of its services, which are more commercial or semi-commercial in nature. If corporatised, the SMO can -

- (a) react much more quickly to team up with strategic partners to develop up-to-date products to meet customers' changing needs. Many of these products will be in the information technology field which requires rapid response in order to grasp the business opportunities. The existing government set up is not designed for departments to operate in a business-like manner as in the commercial environment;

- (b) have more flexibility to recruit quickly staff with the necessary commercial expertise to help develop the organisation's products and services, e.g. staff with skills in commercial development, strategic planning and marketing;
- (c) have the freedom to reinvest its revenues to research and development to produce more value-added services and to conduct more staff training. It could also have more access to financing rather than just solely depending on the internal allocation of government resources as a vote-funded department; and
- (d) enhance its efficiency through greater accountability of the costs and benefits of its operations, greater internal financial control and management responsibility.

4. The fact that the SMO is now functioning well does not mean that it cannot embark on further reforms to make it more efficient in the light of the external environment that it is operating in. We firmly believe that the SMO has great potential for corporatisation which will produce an all-win situation for the community, the staff and the Government.

Nature of survey and mapping services

5. We agree that geodetic survey and mapping services are essential public services and the Government has the responsibility to make sure they are provided. In providing these services, we also have the responsibility to ensure that they are delivered in the most efficient and cost-effective manner. Corporatisation does not mean that the Government is shirking these responsibilities. It only means that we use a better means to perform our responsibilities.

6. As the proposed corporation will be solely owned by the Government, we will ensure that the public interest will be safeguarded. We will ensure that the corporation will continue to assume the public responsibilities of keeping the geodetic network and map base up-to-date. For this purpose, we intend to include statutory provisions in the relevant legislation to vest the corporation with the sole authority and responsibility to provide geodetic and mapping services for the entire territory. The Government will make certain financial arrangements with the corporation in providing these services, e.g. through a service level agreement.

Revenue Assessments

(a) Revenue figures

7. As explained by the Administration at the Panel meeting on 21 February 2000, the 20% on-cost charge on services to Government are overhead expenses which the SMO is now incurring but are hidden in various heads and sub-heads of Government expenditure in the Estimates. They are **not** new or additional costs to Government because of corporatisation. These expenses include administrative overheads. For the corporation to fully recover its costs for providing services to the Government, it is necessary to include all these cost components in the calculation.

8. It is therefore entirely wrong and misleading to say that “the Government has to pay \$1,000 million to enable the corporatised SMO to achieve a surplus of \$583 million over the ten-year period”. The total surplus of \$583 million is obtained through efficiency gains and additional revenues from the private sector projected in the ten-year period. As regards the recurrent cost to Government in providing the essential survey and mapping services to the public, it is estimated that corporatisation of the SMO could lead to a reduction of expenses ranging from 3% to 13% over a ten-year period. As the analysis indicated that there will be a reduction in cost for the Government and in addition, a good prospect for the Government to receive dividends from the future corporation, we do not see why it is not a value for money exercise to corporatise the SMO.

(b) Annual average return on net assets

9. The consultants considered that the most appropriate measure for assessing the rate of return for the proposed corporation is based on the return on the Net Fixed Assets over the 10-year projection period. We agree with this view. In corporatising the SMO, the Government will appropriate the current assets (including accommodation) of the SMO to the new corporation as equity investment, hence, it is logical and reasonable to take into account the value of accommodation in the calculation of the annual average return on net assets.

(c) Expenditure on creation of more posts

10. For the corporation to develop and sustain a robust business, it needs a strong and capable Chief Executive Officer who has the necessary leadership skills and relevant expertise to formulate business strategies to steer the corporation successfully in a business environment. The Chief Executive

Officer will also need a team of staff with the appropriate business skills to help him/her implement the strategies. To tap the right talent for the jobs, we need to have a sufficiently attractive remuneration package. The consultants took into account these new cost elements in arriving at the projected performance of the new corporation over 10 years, which will produce a total surplus of \$583 million.

(d) Different revenue assessments made by the consultants and staff

11. We note the views of staff on the revenue assessments in the light of their operational experience. We believe that their assessments were made on different bases and assumptions from those of the consultants. We have carefully examined the financial projections made by the consultants and are satisfied that these were worked out on reasonable and sensible bases having regard to the current situation as well as the likely market potential.

New Business Opportunities

(a) Establishment of SMO as the Centralised Spatial Data Agency for the management of metadata and the sharing of spatial data in HKSAR

12. The establishment of a centralised spatial data agency is essential for providing a “one-stop-shop” solution for accessing spatial data with a standardised data format. This will put Hong Kong in the forefront of information technology developed countries. At present, the SMO does not have the statutory power to collect, maintain and disseminate spatial data. This has to some extent hindered the setting up of a centralised spatial database by the SMO. We intend to include in the relevant legislation provisions to empower the future corporation to be the centralised spatial data agency. Subject to enactment of the legislation, the corporation will have the statutory authority to collect and maintain metadata and spatial data from all relevant sources including Government departments and utility companies. This will enable the corporation to realise the business opportunities in these areas which have great potential demand, and ultimately to the benefit of the community.

(b) Other new business opportunities

13. To realise the new business opportunities as identified in the consultancy report, we need the right people and the right organisation set up. The consultants were tasked to identify whether and what business opportunities are available to the SMO but not how, in detail, these opportunities are to be realised. This is a job for the Chief Executive Officer

of the proposed corporation. The consultants confirmed that abundant business opportunities do exist for the SMO. Technology is fast developing. It is for the corporation to work out appropriate business strategies to realise these and other opportunities having regard to the market situation prevailing at that time.

(c) Options for developing the new business opportunities

14. As explained in paragraph 3 above, the SMO, under its present set up as a vote-funded Government department, is subject to the constraints of all Government rules, regulations and procedures. For example, a long lead time is required to seek the necessary approval for the development of joint-venture activities subject to the prescribed procedures. This has hampered the SMO in making prompt business decisions and flexible deployment of resources. We see that many of the SMO activities have good market potential and opportunities. With corporatisation, the organisation can be freed from these bureaucratic constraints thereby enabling it to maximise the market potential and to respond to changing market demand in a much more timely manner. Timeliness in making business decisions and putting in place necessary strategies is the critical factor for success in its business operations.

Growth Potential

Digital data products - Government departments

15. Hong Kong is developing into a knowledge-based economy. The development and application of advanced information technology is integral to the growth of our economy. Government departments should lead, rather than lag behind, the community in this area. On-line access to SMO's updated map database enables various Government departments to perform their activities, such as planning, land administration, maintenance and project management more efficiently. More importantly, it provides crucial information to departments to make strategic decisions to meet their departmental objectives. We intend to arrange a service level agreement between the Government and the future corporation to fund the provision of this service to all government departments on a full-cost recovery basis. As explained in paragraph 8 above, taking into account the provision of this and other existing and new services to all Government departments as a whole, corporatisation of the SMO will result in a reduction of Government's recurrent expenditure over a ten-year period.

Legislative Support

16. The Administration is determined to make the corporatisation proposal a success. We will endeavour to pool all necessary resources and to accord work priorities to put forward the necessary legislation according to the required time schedule.

Impact of corporatisation of SMO on the public

17. As the sole shareholder of the future corporation, the Government will, through various arrangements, ensure that the corporation will continue to provide those essential survey and mapping services for the whole community to safeguard public interest. But for other services to the public which are mainly for commercial purposes, we do not see any grounds for not seeking full cost recovery for those services. There is no justification to subsidise the cost of these services from the public purse. Nevertheless, with greater scope for business partnership under the corporate set up, there is a greater possibility to improve the profit margin of certain existing non-profitable services. This will ultimately benefit the customers.

Staffing Arrangements

18. We fully appreciate the staff concerns about their employment in the proposed corporation. We wish to reiterate that the corporatisation proposal will not result in any of the SMO staff losing their job or having their existing terms and conditions of service changed involuntarily. We are developing the corporatisation proposal strictly on the basis that all existing departmental grades staff of SMO, including those on secondment to other departments, will be retained. Furthermore, we will be adopting the principle that all such officers may choose to remain on civil service terms and conditions of service while working with the future corporation, and that the promotion prospects of the respective grades will be no less favourable than provisions under the existing arrangement. The existing criteria for selecting staff for promotion on the basis of their performance, ability and character will continue to be adopted in the future set up.

19. We do not foresee changes that will have an adverse effect on the job security of existing staff. Staff will be able to join the corporation on terms and conditions that they consider acceptable. However, we would stress that such an arrangement will be on an entirely voluntary basis. We expect to accommodate staff who choose to remain on existing civil service terms through the maintenance of an establishment under the control of the Lands

Department. As regards general grades staff, they will also be retained and subject to deployment by their respective Heads of Grades.

20. We are now at the preliminary stage of exploring the way forward and have yet to formulate detailed staff employment packages for the new corporation and conversion arrangements as a choice for existing staff. We shall be pleased to have a formal dialogue with staff so as to take into account their views in developing these arrangements.

21. We also note the staff concern about the business prospects of the proposed corporation in case this affects their job security in the longer term. The Administration is determined to make the corporatisation a success with a view to enhancing the efficiency of the SMO so as to provide better public services. In the face of the rapid pace of development in information technology and the ever-increasing demand for various kinds of information in society at large, we are very optimistic about the business future of SMO. However, in the unlikely event that plans did not work out as expected, the Administration would have to decide on the placement of the staff on civil servant status including their reversion to the Lands Department, taking into account the established policy of avoiding redundancy as far as possible. We wish to reiterate that the mapping and survey functions are essential public services that must be maintained. There is always a need for a responsible organisation to perform these functions under public auspices.

22. Each corporatisation exercise is distinct from every other. The KCRC exercise was one of the earliest exercises conducted in the late 1970s and there have since been several cases which were handled differently according to their background and nature of businesses e.g. the Hospital Authority and the Airport Authority. We can assure the staff that the SMO case will be taken forward in a fair and reasonable manner bearing in mind the staff's interests.

Staff Consultation

23. We fully understand the staff's concern over the future of the SMO and the impact on their employment. We, as always, attach great importance to staff consultation and participation in the issue. The senior management of SMO has been keeping in touch with staff associations and staff concerned on the corporatisation proposal.

24. The Director of Lands on 7 January 2000 provided all staff associations in the SMO with copies of the consultancy report which was prepared in English, and offered to meet and brief them. The Deputy Director of Lands updates staff on the latest developments from time to time through

open letters issued to all staff. The consultancy report is a highly technical document consisting of some 160 pages. Translation of the report takes time. With our best efforts, we provided copies of the Chinese version of the report to staff on 7 March 2000. The senior management of SMO will meet staff associations and hold discussion sessions with all staff shortly to listen to their views, address their concerns and explore together with them the way forward.

Lands Department
Business and Services Promotion Unit
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