

**Legislative Council Panel on Public Service
Meeting on 17 January 2000**

Survey and Mapping Office of Lands Department

Introduction

This paper briefs Members the result of a feasibility study on corporatisation of the Survey and Mapping Office (SMO) of Lands Department, and the Government's proposed way forward.

Corporatisation

2. It has always been the Government's objective to improve the efficiency of public services. There are certain government activities which are commercial or semi-commercial in nature. However, the service providers are often constrained by government rules and procedures which limit their freedom to maximise the market potential and to meet the changing market demand in a timely manner. This hinders the development of more efficient and cost effective services.

3. As we now enter into the 21st century, we need to ensure our services will meet modern day requirements and take full advantage of modern technology and techniques. In order to achieve greater efficiency and cost effectiveness in providing public services, the Government has been exploring corporatisation as a means to provide better services in appropriate cases.

Feasibility study on corporatisation of the Survey and Mapping Office

4. The Business and Services Promotion Unit (BSPU), Financial Secretary's Office is charged with the responsibility for identifying suitable candidates for corporatisation. As part of this work, BSPU commissioned a feasibility study on corporatisation of the SMO in August 1999. We believe that with the development of modern survey technology, the SMO has the potential to operate in a business environment in order to provide better services to its customers, who include both Government departments and clients in the private sector.

5. The feasibility study focussed on the financial viability and the

costs and benefits of corporatising the SMO. Staffing arrangement was not included in the scope of the study. The consultants completed the report in December 1999.

Survey and Mapping Office

6. The SMO is the central authority for land surveys and all types of mapping in Hong Kong. It is responsible for the establishment and maintenance of a geodetic network; the provision of land boundary surveys, photogrammetric surveys as well as cartographic and reprographic services; and the production and revision of maps and plans at different scales for different purposes.

7. The SMO has an establishment of about 1 100 staff incurring a full cost of about \$662 million in 1998-99. In addition, some 255 professional and technical staff are seconded to other departments. The average amount of annual revenue received from services provided to the private sector customers is about \$15.5 million.

Findings of the feasibility study

Business opportunities

8. The study concluded that it is financially viable to corporatise the SMO. In providing the land survey and mapping services to the community over the years, the SMO has developed expertise in various areas (e.g. the knowledge in Geographic Information Systems, the establishment and maintenance of a geodetic network) and a valuable map database. With the rapid development in information technology and electronic business, the SMO has good potential to make more cost effective and efficient use of its resources, both the human and physical resources, in a commercial environment.

9. The consultants saw that it is in the areas of technological advancement that the SMO has the greatest potential. This would be either in terms of the SMO being the custodian of data for use by a wide range of clients, or in the provision of base data for the development of information systems for both public and private sectors. The consultants saw the forming of business partnerships or joint venture partnerships with information service providers being a key area of development. The SMO has indeed already engaged with three private sector partners to produce maps of different nature. With the right technical, commercial and marketing skills, these areas could be developed into a huge future business.

10. The consultants identified that there are many business

opportunities for the SMO. The key ones are set out below with the projected revenues over a ten-year period shown in brackets -

- (a) business partnerships with Value Added Resellers (\$3 million to \$90 million per annum);
- (b) e-commerce systems for the sale of information and services (\$4 million to \$50 million per annum);
- (c) development of Static Information Centres (\$5 million to \$50 million per annum);
- (d) electronic position fixing services in urban areas (\$7 million per annum);
- (e) digital photo maps for various purposes (\$6 million to \$25 million per annum);
- (f) products showing high quality panoramic views of Hong Kong (\$1.5 million to \$6 million per annum);
- (g) Geographic Information System consultancy services (\$1 million to \$10 million per annum);
- (h) the administration and maintenance of a central spatial data agency (\$4 million per annum).

11. Besides, there are other potential business opportunities which the consultants had not set a revenue target (e.g. business partnership with Government Flying Service for aerial survey of neighbouring and regional territories). In addition, the consultants also identified that there are potential developments to existing services e.g. an extension of the Land Survey Ordinance and the commissioning of a Systematic Land Boundary Survey of all Demarcation District Lots in the New Territories.

Projected financial performance

12. In conducting the financial analysis, the consultants adopted the following assumptions -

- (a) retains all current staff (including seconded staff) on existing terms and conditions;
- (b) assumes no staff redundancy;
- (c) retains all current SMO activities;
- (d) uses all existing buildings and facilities;
- (e) bases pricing according to current policy;
- (f) charges Government for services on a full cost recovery basis and products on market price;
- (g) assumes an equity injection of \$550 million from Government on start-up through the transfer of property from the SMO; and a government loan of \$160 million to cover the working capital in early years.

13. On the basis of the above assumptions, the financial analysis projected that the corporation would have the following performance -
- (a) a deficit of \$83 million in year one reducing to \$3 million in year four;
 - (b) a surplus of \$26 million in year five increasing to \$224 million in year 10;
 - (c) a total surplus of \$583 million over the ten year projection period;
 - (d) pays back the government loan of \$160 million by year seven;
 - (e) achieves an average annual return on net fixed assets of 12.1%.

Benefits of corporatisation

The community

14. The study indicated that a corporatised SMO, being a customer-oriented organisation running on commercial principles, would be in a better position to provide up-to-date and quality services to the community. It would be better equipped to take advantage of leading edge technologies to meet customers' demand in a more timely manner. For example, the development of Global Positioning System, e-commerce and broad-band internet connections increase the potential of a corporatised SMO to provide high quality digital maps and photographs to business and the general public world-wide.

Government

15. On the basis of the financial analysis, in the medium to long term, corporatisation of the SMO can reduce the Government's cost and enhance its efficiency in providing survey and mapping services to the community. The consultants estimated that a corporatised SMO could bring an overall benefit of \$948 million to the Government over a ten-year period. This figure includes an amount of efficiency gains of \$333 million, projected profits tax and dividend payments from the corporation.

16. The major efficiency gains would come from rationalisation of support services, streamlining of procedures and using of advanced technology, thus resulting in savings in administration overheads as well as increase in productivity.

Staff

17. Throughout the analysis, the consultants assumed that all the staff would be retained on the existing terms and conditions. With the job security remains unchanged, in a corporation which is free from government rules and procedures, the staff should have more flexibility and opportunities to develop

their potential and provide better services. Their job status could also be enhanced with the development of a corporate culture.

Key factors for success

18. The consultants stressed that the targets for all the business opportunities identified could only be achieved if the SMO moves to a corporate status and is led positively as a commercial organisation. The speed of implementation will also be important in order to take full advantage of the prevailing technological innovation. It will be difficult for a Government department to maximise the full commercial potential of these opportunities within the existing government set up.

19. The consultants considered a wide range of potential risks and sensitivities. These included staff and skills issues, cost control, but the most important is the achievement of revenues. In order to achieve the sale targets, the corporation would need a capable leader who is supported by people possessing the necessary commercial skills in business development, marketing, finance, service level agreements and contract management.

20. The consultants also emphasized that great importance must be attached to staff participation in the whole transformation process. It is necessary to seek staff support and show understanding in implementing any changes affecting their job. In addition, the extent of culture change required to transform the SMO from a government organisation to a commercially oriented corporation should not be underestimated.

21. A copy of the Executive Summary of the report is attached. We have also deposited a few copies of the full report with the Legislative Council Secretariat for the reference of those Members who are interested in reading the full report.

The Way Forward

22. After careful consideration of the consultants' report, the Administration agreed that the SMO has a good potential to operate on a commercial basis. We intend to explore further with staff the proposal of corporatising the SMO. We set out below a number of key issues that we have to consider in taking forward the proposal.

(a) Staffing arrangement

23. In implementing any corporatisation proposal, the Government's policy is to avoid forced redundancy as far as possible. To further explore the proposal to corporatise the SMO, we are prepared to proceed on the basis that all staff will be retained on the existing terms and conditions and be seconded to the new corporation. On this basis, we are willing to work out with staff options of the transfer packages to facilitate voluntary transfer to corporate terms if preferred by staff.

24. We understand that it will take time for the corporation to have its staff fully established on corporate terms and there would be a mixed staff situation during the transition. We are prepared to proceed carefully with the process of achieving efficiency gains alongside smooth staff transfer arrangements with a view to maintaining a stable transition.

(b) Staff consultation

25. We fully understand staff's concern on any proposed changes to the SMO. We attach great importance to staff consultation and participation in the whole issue. We firmly believe that staff's support and understanding is crucial to the success of any changes. The SMO management has passed copies of the full report to all the staff associations in the SMO, and has offered to organise detailed briefings for staff. We are prepared to work with staff on how to explore further the corporatisation proposal.

(c) Service quality

26. We believe that corporatisation of the SMO could help enhance its service quality. In a commercial environment, market forces would create pressure on the corporation to provide high quality products to meet customers' demand. As a commitment to improve its services, the SMO has already started seeking for the ISO 9000 accreditation. In exploring the corporatisation proposal, we would consider the mechanism for monitoring the service levels of the future corporation.

(d) Fees and charges

27. We understand that there are concerns that the fees and charges for public services might increase if they are corporatised. In exploring the corporatisation of the SMO, we would examine carefully this aspect and will ensure that adequate measures would be in place to safeguard public interest.

(e) Legal framework

28. Legislation will be required for the establishment of a public corporation. We would now move forward with staff to further explore the corporatisation proposal. When we have come up with any detailed proposal, we would discuss it again with Members.

Planning and Lands Bureau
Lands Department
Business and Services Promotion Unit/
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