REPORT OF THE

PUBLIC ACCOUNTS COMMITTEE

ON

REPORT NO. 38 OF THE DIRECTOR OF AUDIT

ON

THE RESULTS OF

VALUE FOR MONEY AUDITS

AND

SUPPLEMENTAL REPORT OF THE

PUBLIC ACCOUNTS COMMITTEE

ON

REPORT NO. 37 OF THE DIRECTOR OF AUDIT

ON

THE RESULTS OF

VALUE FOR MONEY AUDITS

July 2002

P.A.C. Report No. 38

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I. INTRODUCTION

The Establishment of the Committee The Public Accounts Committee are 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. **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 Emily LAU Wai-hing, JP
Members	Dr the Hon David CHU Yu-lin, JP The Hon Fred LI Wah-ming, JP The Hon LAU Kong-wah The Hon Abraham SHEK Lai-him, JP The Hon Tommy CHEUNG Yu-yan, JP
Clerk	Ms Miranda HON Lut-fo
Legal Adviser	Mr Jimmy MA Yiu-tim, JP

II. PROCEDURE

The Committee's Procedure The Committee's practice and procedure, as determined by the Committee in accordance with Rule 72 of the Rules of Procedure, are 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 or other appropriate officers shall be called. Appearance 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 appear 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

(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 corresponds with Report No. 38 of the Director of Audit on the results of value for money audits which was tabled in the Legislative Council on 24 April 2002. 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 contains the Public Accounts Committee's supplemental report on Chapter 6 of Report No. 37 of the Director of Audit on the results of value for money audits which was tabled in the Legislative Council on 21 November 2001. The Committee's Report No. 37 was tabled in the Legislative Council on 6 February 2002.

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. COMMITTEE PROCEEDINGS

Consideration of the Director of Audit's Report No. 38 tabled in the Legislative Council on 24 April 2002 As in previous years, the Committee did not consider it necessary to investigate in detail every observation contained in the Director of Audit's Report. The Committee have therefore only selected those chapters in the Director of Audit's Report No. 38 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.

2. **Meetings** The Committee held a total of 11 meetings and 10 public hearings in respect of the subjects covered in this Report. During the public hearings, the Committee heard evidence from a total of 34 witnesses, including 5 Bureau Secretaries and 9 Heads of Department. The names of the witnesses are listed in ***Appendix 3*** to this Report. A copy of the Chairman's introductory remarks at the first public hearing on 6 May 2002 is in ***Appendix 4***.

3. **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 Reports, are set out in Chapters 1 to 6 below.

4. A verbatim transcript of the Committee's public proceedings will be available in the Library of the Legislative Council and on the Council's Internet Home Page 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 completed his Report, and for the many services which he and his staff have rendered to the Committee throughout their deliberations.

Chapter 1

Mechanised street cleansing services

Part I: Introduction

Audit conducted a review to:

- examine whether the Food and Environmental Hygiene Department (FEHD) had used its resources economically and efficiently in providing the mechanised street cleansing services; and

- ascertain whether there was room for improvement in the provision of the mechanised street cleansing services.

2. The Committee held a public hearing on 6 December 2001 to receive evidence from the Administration on the issues examined in the Audit Report. Prior to the hearing, in her letter of 5 December 2001 in ***Appendix 5***, the **Director of Food and Environmental Hygiene** provided supplementary information on the improvements in the provision of the mechanised street cleansing services.

3. At the Committee's request, the Administration also provided additional information after the hearing. Having studied the evidence and information, the Committee decided to hold another public hearing on 1 March 2002 to study whether the chain of command and tiers of staff of the FEHD in relation to the provision of mechanised street cleansing services were cost-effective.

Part II: Evidence taken at the public hearing on 6 December 2001

4. At the public hearing, the Committee invited **Mrs Rita LAU NG Wai-lan, Director of Food and Environmental Hygiene**, to present the supplementary information on the improvements in the provision of the mechanised street cleansing services. She said that:

- since its establishment in January 2000, the FEHD had reviewed 21 items of work, including five on the delivery of street cleansing services;

- before Audit let the FEHD have sight of the draft Audit Report, the FEHD had commenced a study on measures to improve the provision of mechanised street cleansing services along the line of Audit's recommendations. As a result, some new measures had already been put in place;

- Audit considered that the FEHD needed to make use of objective data for determining the sweeping frequencies of mechanised sweeping routes (MSRs). As the planned sweeping frequencies were derived from those adopted by the former Urban Services Department (USD) and the former Regional Services Department (RSD) in the mid-1980s, the FEHD considered that there was now a need to revise the mode of operation in the light of present-day circumstances;

- the FEHD planned to align the work values for the mechanised street sweeping service in the New Territories Area with those in the Urban Area. In view of the Audit Report, the comprehensive review of the mechanised street sweeping service originally scheduled for commencement in July 2002 had now been advanced to December 2001;

- the FEHD had adopted improvement measures, including reducing the number of MSRs from 36 to 30 and that of mechanised gully cleansing routes (MGCRs) from 23 to 17, which would achieve annual savings of about $2.83 million and about $4.33 million respectively. Special Drivers and other team members of the six MGCRs had been redeployed to perform other duties;

- regarding manual street washing and mechanised street flushing services, the FEHD had been actively pursuing improvements in planning street washing routes. One mixed street washing route had been changed to a mechanised street flushing route. As a result, $0.66 million would be saved annually;

- some tasks in the mechanised gully cleansing operation and the street washing operation must be performed by the Special Driver alone. Those tasks included checking the vehicle and filling its water tank. To minimise waiting time, the FEHD had identified 10 additional water filling points; and

- the FEHD was reviewing the street washing operation and would implement a set of new work values before the end of December 2001 so as to further achieve cost-effectiveness in route planning and enhance productivity.

Idle time

5. The Committee noted from recent press reports that there was a substantial increase in the number of cases of staff misconduct, and that subsequent to the release of the Audit Report, certain staff of the FEHD were spotted by reporters of a major newspaper to be having a substantial amount of idle time in their daily work. The Committee therefore asked whether:

- the staff involved in misconduct cases included those responsible for providing the street washing service or the mechanised gully cleansing service; and

- the FEHD could expeditiously address the problem of idle staff.

6. The **Director of Food and Environmental Hygiene** responded that:

- according to the records on the cases of staff misconduct being handled by the FEHD, the staff concerned did include staff responsible for providing the mechanised gully cleansing service;

- the FEHD was aware of the issue of idle time raised by Audit. When a street was being flushed, only the Special Driver of the street washing team operating the street washing vehicle was working while the three team members were idle. The FEHD admitted that the use of resources was not optimised in this case. Separate routes should be designated for the street washing operation and the street flushing operation. Nevertheless, consideration should be given to the availability of special-purpose vehicles and the respective frequencies of the two operations;

- the review of the work values being used for the street washing service was underway, with a view to addressing the problem of idle staff. Apart from reducing the routes to achieve greater operational efficiency, the FEHD would redeploy the staff with surplus capacity to perform other duties;

- as mentioned in the Audit Report, the mechanised street cleansing services were sometimes suspended, which could be due to the high downtime rates of the FEHD's fleet of special-purpose vehicles. Most of the vehicles were running beyond their typical lifespan of nine years and hence had to be repaired; and

- on the utilisation of its manpower, the FEHD was looking into the feasibility of staggered working hours for the Special Driver and the cleansing staff. For example, the Special Driver could arrive for work before the cleansing staff, so that the latter would not have to wait while the former was engaged in preparatory work, such as filling up the water tank of the special-purpose vehicle. The FEHD would also make an effort to redeploy the staff concerned across districts.

Mechanised street cleansing services

7. On the frequent suspension of the mechanised street cleansing services in the day shift in May 2000, the Committee noted from paragraph 5.4 of the Audit Report that one of the reasons for the suspension was the shortage of Special Drivers, which was partly due to sudden exigencies. Sudden exigencies arose from sick leave and urgent leave of staff. As Table 7 of the Audit Report revealed that 24% of the mechanised street sweeping service, 37% of the mechanised gully cleansing service and 71% of the street washing service in the day shift in May 2000 were suspended because Special Drivers were not available, the Committee considered that the percentages were very high. The Committee asked whether a lot of Special Drivers were on sick leave or urgent vacation leave.

8. **Ms Rhonda LO, Acting Deputy Director of Food and Environmental Hygiene (Environmental Hygiene)**, informed the Committee that:

- according to the findings of the FEHD's investigation, the overall level of sudden exigencies in May 2000 was normal. Another reason for the shortage of Special Drivers was the deployment of Special Drivers to operate refuse collection routes in new districts and meeting the FEHD's obligation to operate a daily refuse collection service. The situation had improved since November 2001 when a new contract for refuse collection came into effect; and

- as shown in Table 6 of the Audit Report, the average percentages of suspended services in four months in 2000 were 42% for mechanised street sweeping, 29% for mechanised gully cleansing and 12% for street washing. According to the FEHD's latest records, the percentages had now dropped significantly to 22%, 17% and 10% respectively.

9. In response to the Committee's enquiry about the respective percentages of the Special Drivers on sick leave and urgent vacation leave in May 2000, the **Director of Food and Environmental Hygiene** provided the information in the Table attached to her letter of 19 December 2001, in ***Appendix 6***. She also stated that the percentages of suspension of services due to the above reasons ranged from 4% to 9%.

10. The Committee further asked about the number of Special Drivers in the FEHD and whether their work could be taken up by other drivers. The **Director of Food and Environmental Hygiene** replied that:

- there were 548 Special Drivers in the existing establishment. They had received special training for operating special-purpose vehicles. Other

drivers were not able to operate these vehicles. Thus there was the Special Driver Grade in the FEHD. The FEHD's fleet of vehicles was huge, comprising more than 500 special-purpose vehicles used in providing various services; and

- the FEHD would be able to save resources through the natural wastage of Special Drivers under the Voluntary Retirement Scheme and the planned outsourcing exercise of some services. The FEHD had received a large number of applications from Special Drivers for voluntary retirement.

11. The Committee pointed out that the problem of scheduled idle time of the cleansing staff had arisen years ago. They questioned:

- why the FEHD had not addressed the problem before Audit conducted the review; and

- whether a mechanism had been in place to identify idle staff.

12. The **Director of Food and Environmental Hygiene** explained that:

- in deploying staff and scheduling their shifts, the FEHD had to consider the working hours of the staff. For example, it had to consider whether the Special Driver could be required to work more hours than other members of the cleansing team under the existing 45-hour week system. As revision of work schedules would affect several thousand staff, the FEHD needed more time to study the issue. While the management was responsible for distributing work to the staff, it needed to have regard for their benefits as well as their terms and conditions of service;

- on the question of idle staff, the FEHD had taken over many cases from the USD upon its establishment in 2000, and follow-up actions were required. As a result, the FEHD had set up a Quality Assurance (QA) Section in October 2001. The staff associations and staff became deeply worried, and were initially united in fighting against the management. Through the management's efforts to enhance mutual understanding, staff had now accepted the QA Section. The internal mechanism for self-monitoring was firmly in place in the FEHD, which marked a significant change in the culture of the Department;

- due to its huge structure of more than 14,000 staff, there were various work procedures and work cultures in the FEHD. People had inertia and deep-rooted bad habits. She hoped to spend some time turning the tide; and

- she had repeatedly reminded staff that the FEHD would be serious in enforcing a relatively high standard of discipline. Under the civil service system, disciplinary cases might drag on for months or a year. However, the FEHD, in conjunction with the Civil Services Bureau (CSB), had shortened the duration of disciplinary procedures. The FEHD had also adopted many legal and reasonable procedures to safeguard the rights and interests of the staff.

13. The Committee further enquired:

- whether staff of the FEHD fully accepted the QA Section; and

- how far the duration of disciplinary cases had been shortened.

14. The **Director of Food and Environmental Hygiene** replied that:

- she believed that the staff understood and accepted the system as a whole. The QA Section conducted investigations in an open manner and, in response to staff concern over the method of investigation adopted by the Section, the FEHD had made it clear that the QA staff did not take photographs secretly like the paparazzi;

- the FEHD reiterated time and again that if the staff did not exercise self-discipline, there would still be disciplinary cases in future. The system was fair and transparent. The QA Section would forward its investigation findings to the Discipline Section. Therefore, there would not be a conflict of interest;

- the duration of disciplinary cases depended on the circumstances of individual cases. Those which involved court proceedings would drag on for a long time. For those which could be handled solely through internal disciplinary procedures, they could be completed quickly. Instead of circulating documents to the CSB, the FEHD would hold a case conference with the CSB to discuss the approach to handling certain cases, thus saving a substantial amount of time; and

- the FEHD had reached a consensus with the Public Service Commission on the criteria for punishment. To ensure staff's compliance with good working practice and discipline, she would take vigorous actions and set stringent requirements.

15. With a view to ascertaining the effectiveness of the QA Section, the Committee requested the Director of Food and Environmental Hygiene to provide the following information:

- the functions of the QA Section;

- the total number of cases processed since its establishment and the duration of each case;

- the number of cases in which disciplinary action had been taken against staff responsible for providing mechanised street cleansing services; and

- the disciplinary procedures.

16. The **Director of Food and Environmental Hygiene** provided the relevant information vide her letter of 19 December 2001, in ***Appendix 6***. She stated that:

- the QA Section was set up on 1 October 2000 with the following functions:

  (a) to conduct regulatory inspections of the services provided by the Department;

  (b) to identify inadequacies in systems, procedures and guidelines in the course of inspections and make recommendations for improvement;

  (c) to investigate complaints concerning staff misconduct which was mainly related to dereliction of duties; and

  (d) to report on good performers for appropriate recognition by the management;

- up to 30 November 2001, the QA Section had conducted 1,119 inspections of district cleansing work. Inspections had been extended to public markets starting from December 2001;

- inspections were conducted in an open and transparent manner. Districts or Sections were notified shortly before an inspection commenced and the front-line supervisory officers were invited to accompany the QA staff throughout the inspections. Inspection records were kept for review and follow-up;

- investigation of complaints pertaining to staff misconduct was conducted in a confidential manner, which included discreet observation. Up to 30 November 2001, the QA Section had dealt with 263 complaint cases concerning staff misconduct. 113 complaint cases were under investigation;

- out of the 376 complaint cases, there was one case concerning a street washing gang comprising one Ganger, three Workmen and one Special Driver. The staff were currently under investigation for alleged non-performance of duty and prolonged meal break. Separately, the Discipline Section of the FEHD had also initiated disciplinary action on two cases of Special Drivers on mechanised sweeping duties having been involved in duty-related misconduct. These two cases were reported by their supervisors; and

- the Discipline Section was responsible for processing disciplinary cases. It was independent of the QA Section, which only served as an investigative arm. Upon completion of the investigation of a staff misconduct complaint case which was substantiated, the QA Section would forward its findings to the Discipline Section. The Discipline Section would then thoroughly examine the findings. If there was prima facie evidence of staff misconduct, the Discipline Section would institute the appropriate disciplinary action, i.e. formal or informal disciplinary action, against the staff involved in accordance with the disciplinary procedures and guidelines promulgated by the CSB.

17. Noting that the Discipline Section of the FEHD had initiated disciplinary action on two cases of Special Drivers on mechanised sweeping duties, the Committee further asked:

- about the specific disciplinary action initiated on the two cases;

- for a breakdown by year of the number of cases in the past five years in which disciplinary action had been initiated against staff responsible for providing mechanised street cleansing services;

- for a breakdown by year of the number of substantiated complaint cases in the past five years and the total number of such cases concerning staff responsible for providing mechanised street cleansing services; and

- about the mechanism for handling complaint cases before the establishment of the QA Section.

18. The **Director of Food and Environmental Hygiene** provided the information vide her letter of 17 January 2002, in ***Appendix 7***. She advised that:

- on the mechanism for handling complaint cases in the area of environmental hygiene, in the RSD, staff-related complaints received were referred to its district offices in the New Territories for initial investigation. Substantiated cases of staff misconduct were then referred to its Staff Management Section for suitable disciplinary action to be taken. In the USD and in the FEHD, before the establishment of the QA Section and the Complaints Management (CM) Section on 1 October 2000 and 1 November 2000 respectively, staff-related complaints were referred to the Staff Management Section of the USD or the Discipline Section of the FEHD for investigation. Where complaints were directly received by various districts or sections of the Department, investigation would be carried out by the respective offices concerned. If staff misconduct was substantiated, the case would then be referred to the Staff Management Section or the Discipline Section for suitable disciplinary action to be taken; and

- after the establishment of the CM Section and the QA Section, all complaints received by the FEHD were initially handled by the CM Section. Work-related complaints were subsequently referred to the QA Section for detailed investigation. Where staff misconduct was substantiated, the case would be forwarded to the Discipline Section for follow-up action. In accordance with standing requirements, all complaints involving allegations of crime or corruption were referred to the Hong Kong Police Force (HKPF) or the Independent Commission Against Corruption (ICAC) for investigation. For those referral cases which were subsequently deemed not pursuable by the HKPF or the ICAC, the FEHD would re-examine the facts of the case to see if any misconduct was involved and, if so, what further action should be taken.

19. Referring to the problem of cleansing staff in the street washing teams having a substantial amount of scheduled idle time, the Committee were concerned that a substantial amount of manpower resources had been wasted. They therefore asked the Director of

Food and Environmental Hygiene whether she had been aware of the situation before Audit conducted the review.

20. The **Director of Food and Environmental Hygiene** explained that:

- she had knowledge of the mode of delivery of the services provided by the Department but might not know the operation of individual street cleansing routes;

- the FEHD aimed at enhancing the quality of all its services. However, in view of the extensive scope of its work, she needed to set priorities in dealing with problems. She never disregarded problems when they arose; and

- in the past two years, the FEHD had dealt with many sudden exigencies, which required the deployment of a substantial amount of resources. For example, significant portions of mechanised street cleansing services were suspended due to the shortage of vehicles. As the FEHD was obliged to provide essential services, such as the refuse collection service, to new towns, particularly Yuen Long and Tseung Kwan O, vehicles were deployed for the provision of these services.

21. The Committee pointed out to the Director of Food and Environmental Hygiene that the Director of Audit had reviewed "The refuse collection service of the Regional Services Department" in his Report No. 31 and "The refuse collection service of the Urban Services Department" in his Report No. 33. As soon as the Director of Audit had published the above Reports, the government departments concerned promptly responded that they were able to delete a certain number of refuse collection teams. Moreover, the Committee noted that, as stated in the conclusions and recommendations on the subject "Monitoring of outdoor staff" in the Committee's Report No. 31, the Secretary for the Civil Service had issued a circular on 19 November 1998 urging 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.

22. Against this background, the Committee asked the Director of the Food and Environmental Hygiene why the problem of under-utilisation of staff capacity had repeatedly arisen in her Department, i.e. the USD, the RSD and the FEHD. The **Director of Food and Environmental Hygiene** replied that:

- upon the establishment of the FEHD in 2000, she realised that merging the work of the USD and the RSD was more complicated than expected. It would take some time to make improvements to the systems of the two departments which had been established decades ago;

- while addressing some long-standing problems, the FEHD was faced with new work and unexpected problems. It needed to set priorities in its work. Given adequate resources and capability, the FEHD should constantly review and improve its services and enhance the effectiveness of its system;

- there was a Management Services Unit (MSU) in the FEHD. It was tasked to review constantly the cost-effectiveness of the services provided by the Department. In the past two years, while the FEHD was taking over the management and services of the USD and the RSD, the MSU constantly followed up the Department's work plan, reviewing the policy directions, determining some work values and reviewing the approach to enhancing the effectiveness of the services. The FEHD also continuously implemented the recommendations made by the Director of Audit in his past reports;

- the FEHD had been implementing the system of control very rigorously and speedily. Apart from dealing with the system, it also needed to monitor individual staff. The establishment of the QA Section served as proof of the FEHD's response to the Secretary for the Civil Service's urge for government departments to strengthen internal staff management. The Department relied not only on its QA Section for identifying irregularities but also promoted the culture that all members of the management were responsible for monitoring their subordinates. Hence the Department had set stringent requirements for staff's compliance with discipline and constantly reminded staff of the requirements. Disciplinary actions would be imposed and followed up promptly and fairly; and

- many staff were engaged in outdoor manual work, and the work was sometimes obnoxious in nature. She considered that the management should show some understanding and, while ensuring that staff would not take indolence for granted, would take into account the law, the principles and compassion in discharging supervisory duties. If a staff member stopped for a break of 10 minutes because work was hard, she wondered whether the staff member should be considered as having made a mistake.

Mechanised street cleansing services

23. Regarding the measures to reduce the non-productive time of the refuse collection teams and the excess capacity of the refuse collection vehicles (RCVs), the Committee noted from their Report No.33B that the USD had installed vehicle monitoring devices on 11 RCVs for trial and that the FEHD would continue to explore modern equipment available for monitoring effectively the operation of its RCVs. The Committee asked whether the FEHD had adopted this measure for monitoring the operation of special-purpose vehicles for mechanised street cleansing services and set up a spot-checking system with a view to reducing the non-productive time of the staff responsible for providing the services.

24. In Annex IV of her letter of 20 December 2001, in ***Appendix 8***, the **Director of Food and Environmental Hygiene** informed the Committee that:

- the FEHD had procured and installed electronic on-board monitoring devices on special-purpose vehicles for effective monitoring of the operation of its RCV fleet and other mechanised cleansing services such as street sweeping. A contract had been awarded in 2001 for the installation of monitoring devices in 200 vehicles, i.e. 120 RCVs and 80 other mechanised cleansing vehicles. Installation work was expected to be completed by February or March 2002. Procurement of monitoring devices for the remaining 200 vehicles would follow;

- a systematic and comprehensive supervisory checking system was already in place to closely monitor service delivery. The inspections comprised routine and surprise checks. Front-line supervisors conducted daily inspections to ensure that the mechanised cleansing programmes were carried out according to schedule. To step up supervision, physical inspections by the senior management would be carried out. Any irregularities detected would be rectified immediately and recorded for appropriate follow-up action; and

- in addition to physical inspections, services were closely monitored through enhanced documentation and verification of work records. Compilation of the various records, such as staff notebooks, visit books on cleansing facilities and schedules of completed work, had helped provide useful information for monitoring the effectiveness of the service delivery, detecting and correcting abnormalities as well as prioritising the conduct of physical inspections.

25. The Committee noted from their Report No. 31 on "Monitoring of outdoor staff" that the then Secretary for the Civil Service had 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. However, short working hours were not allowed. The Committee pointed out that the present Audit Report had revealed that some staff who provided mechanised street cleansing services worked less than the conditioned hours. The Committee asked the Director of Food and Environmental Hygiene whether she would seriously examine how far the management should be responsible for ensuring that staff worked no less than the conditioned hours.

26. The **Director of Food and Environmental Hygiene** said that:

- the Financial Secretary required all government departments to draw up some manpower plans every year. As a result, the FEHD was able to conclude that there was surplus staff, and about 26 grades were subsequently included in the Voluntary Retirement Scheme. The FEHD had received more than 3,000 applications, most of which were from cleansing staff. Through natural wastage, it hoped to ease the pain of enhancing productivity and reducing departmental expenditure. In the past two years, the FEHD had also frozen its establishment and had not created any posts. In addition, it had been contracting out its services in an orderly manner so as to optimise the use of resources; and

- the FEHD was very determined to ensure that every tier of staff performed monitoring duties effectively. Nevertheless, there were more than 30 grades in the FEHD. A hierarchy of 10 tiers of staff, i.e. from District Superintendent to Ganger, was involved in supervisory duties. In theory, one layer should supervise the next layer, thereby achieving effective monitoring. However, supervisory staff had other duties in addition to monitoring work. She concurred that there was a need to instill in staff the message that "everybody was required to be accountable". As a foremost requirement, every civil servant should do his job properly. She often stressed that every civil servant should ask himself every day whether he deserved the salary he received. If staff exercised self-discipline, the problem of monitoring could be easily resolved. If a staff member did not value his job, and misconduct was detected, she would certainly take disciplinary action against him.

27. In the light of the Director of Food and Environmental Hygiene's above statement about the multi-layered structure of the FEHD, the Committee requested the Director to provide an organisation chart of the FEHD showing the position of the Environmental Hygiene (EH) Branch and its chain of command. The **Director of Food**

and Environmental Hygiene provided the information vide Annexes I and II of her letter of 20 December 2001, in ***Appendix 8***.

28. Referring to the organisation chart of Operations Division 3 (as a sample Operations Division) and Kwai Tsing District Office (as a sample District Office) shown in Annex II of the same letter, in ***Appendix 8***, the Committee further enquired:

- whether the Assistant Director (Operations) relied heavily on the supervisory staff in the system of staff supervision;

- whether any guidelines had been issued on staff supervision; and

- about the level of supervisory staff who should be held responsible for misconduct of their subordinates, e.g. in the case concerning a street washing gang as mentioned in the Director of Food and Environmental Hygiene's letter of 19 December 2001, in ***Appendix 6***.

29. The **Director of Food and Environmental Hygiene** stated in her letter of 16 January 2002, in ***Appendix 9***, that:

- the three Assistant Directors (Operations) directed the overall delivery of services under their geographic responsibility. For the day-to-day supervision of field operatives, they inevitably had to rely on front-line supervisors for staff supervision. Taking public cleansing services as an example, cleansing supervisors, ranging from Overseer, Senior Foreman to Foreman, undertook supervision of Gangers and Workmen as the main part of their daily duties;

- since its establishment in January 2000, the FEHD had issued guidelines in the form of Administrative Circulars applicable to all services and Operational Circulars in addition to instructions laid down in the Operational Manual for Cleansing Services. These guidelines, reviewed and updated from time to time, were to facilitate, inter alia, front-line supervisors to fully understand their supervisory role and effectively manage the field staff under their command; and

- primarily, immediate supervisors should be accountable for the misconduct and non-performance of duty of the staff under their direct supervision. Regarding the case concerning the street washing gang, the Foremen of the Cleansing Sections where street washing took place should have responsibility for the performance of the gang.

30. As revealed in Annex II of the Director of Food and Environmental Hygiene's letter of 20 December 2001, in ***Appendix 8***, there were 12 tiers of staff from Assistant Director (Operations) 3 to Workman II in the organisational structure of the Operations Division 3 of the EH Branch. The Committee asked the Secretary for the Environment and Food[1] whether:

- the EH Branch could be streamlined, and if not, why not; and

- she would consider inviting the Management Services Agency to carry out a study on the organisational structure of the EH Branch.

31. The **Secretary for the Environment and Food** commented in her letter of 12 January 2002, in ***Appendix 10***, that:

- the EH Branch of the FEHD performed a wide spectrum of functions in addition to the provision of cleansing services. These other duties included:

  (a) regulatory control of food business premises;

  (b) regulation and management of slaughterhouses;

  (c) market management;

  (d) hawker control;

  (e) pest control; and

  (f) provision of cemeteries and crematoria services;

[1] With the implementation of the Accountability System for Principal Officials, the statutory functions relating to food safety and environmental hygiene exercisable by the Secretary for the Environment and Food have been transferred to the new Secretary for Health, Welfare and Food with effect from 1 July 2002.

- it might not be appropriate to assess the need to conduct a comprehensive review of the structure of the EH Branch simply on the basis of the hierarchy of one of its many Sections. The organisation and hierarchy of the Sections responsible for the above duties differed depending on operational requirements and the nature of the services provided. For example, there were only five tiers of staff from Assistant Director to Health Inspector in the Slaughterhouse Section;

- nevertheless, the Environment and Food Bureau (EFB) believed that certain operation and Sections in the EH Branch of the FEHD could be streamlined. Indeed, since its establishment in January 2000, the FEHD had been actively examining effective ways of doing so to enhance productivity and value for money. Its MSU had studied the operation and staffing of Hawker Control Teams and of the Foreman Grade. It had also recently completed studies on beat sweeping and street washing services. Other studies, including reviews of the Ganger Grade and pest control operations, would be completed later in 2002;

- these studies often led to a reorganisation of structure of the Sections concerned. For instance, as part of the study on the staffing of the Foreman Grade, a trial scheme replacing the three tiers of Overseer, Senior Foreman and Foreman with a single Senior Foreman (Contract Management) tier had been introduced to improve operational efficiency and management of cleansing contracts; and

- many improvements arising from the studies started only recently. Some would be implemented soon. The EFB considered it desirable to allow these changes to operate for a period of time to assess their effectiveness before it considered whether to seek the assistance of the Management Services Agency in carrying out a review of the structure of the EH Branch.

32. In the light of the above reply, the Committee further enquired about the work undertaken by the Administration in respect of the streamlining of the organisational structure of the FEHD, particularly its EH Branch, since the establishment of the new framework on 1 January 2000 for delivering municipal services.

33. The **Secretary for the Environment and Food** informed the Committee in her letter of 17 January 2002, in ***Appendix 11***, that:

- the FEHD was established in January 2000 following a reorganisation of municipal services. Since then, in order to streamline the delivery of environmental hygiene services, the FEHD had been reviewing its operations and had initiated a number of work studies to examine ways to enhance the efficiency, productivity and cost-effectiveness of its services. The FEHD's MSU had undertaken staffing studies on different work streams in the EH Branch. Through reviewing the job content and the workload of the staff of the different grades involved, the studies aimed to streamline the structure and establish an optimum staffing level for service delivery. As far as studies on staffing structures were concerned, the MSU had completed the Staffing Review of the Foreman Grade and the Comprehensive Review of Hawker Control Team Operations and was conducting the Ganger Grade Review. The FEHD would embark on a Market Manager Pilot Scheme shortly;

- in addition to the above studies, the FEHD had been actively seeking to achieve cost-effectiveness and better value for money through outsourcing initiatives. Over the past two years, the FEHD had successfully speeded up outsourcing of the street cleansing service from 28% to 49% of the total service delivered, and the refuse collection service from 12.5% to 30% of the total service delivered. These outsourcing initiatives had released 1,101 Workman II posts and 79 Driver posts. Furthermore, the FEHD would start to outsource its mechanised street sweeping service and mechanised gully cleansing service, with a view to achieving 100% and 70% outsourcing respectively for the two services in 2002; and

- the FEHD had also streamlined the horizontal structure of its EH Branch. On 1 January 2002, the Headquarters Division of the Branch was disestablished and its work redistributed among the three Operations Divisions. This initiative had resulted in the reduction of one Directorate 2 level post. The Anti-fly and Insect Control Services were transferred from the EH Branch to the Food and Public Health Branch on 1 January 2002. The transfer included the streamlining of service delivery, resulting in the reduction of 48 civil service posts.

34. On the release of 1,101 Workman II posts and 79 Driver posts as a result of the FEHD's outsourcing initiatives as mentioned in the above letter, the Committee asked whether the release of the posts had resulted in the redeployment of the staff to perform same or other duties in other government departments, or the staff had been made redundant. In her letter of 29 January 2002, in ***Appendix 12***, the **Secretary for the Environment and Food**, stated that the staff involved had either been redeployed to other duties within the FEHD, or had left the civil service through natural wastage, i.e. retirement and resignation,

or the Voluntary Retirement Scheme. No member of staff had been made redundant through the FEHD's outsourcing initiatives.

35. To enhance their understanding of the FEHD's streamlining efforts with particular reference to the operation of mechanised street cleansing services, the Committee enquired whether the FEHD's MSU had conducted any studies on the organisational structure of the EH Branch, particularly those relating to the operation of mechanised street cleansing services and, if so, what the results were.

36. The **Director of Food and Environmental Hygiene** informed the Committee, in her letter of 17 January 2002, in ***Appendix 13***, that:

- since the establishment of the FEHD on 1 January 2000, its MSU had undertaken 13 management service studies on different work streams in the EH Branch, resulting in streamlined hierarchical structure and optimum staffing level for service delivery;

- as far as street washing was concerned, the problems identified in the Audit Report were attributed to outdated work values derived from the mid-1980's. In December 2001, the MSU had completed a study on the work practices of the street washing service, which resulted in the implementation of new time standards and values. Separately, in February 2002, the FEHD would separate routes for flushing duties from those for washing to ensure that the resources intended for washing duties would not lie idle due to the difficulties in carrying out washing because of, for example, the busy street condition. The FEHD was also putting on trial in three districts staggered working hours for Special Drivers and Workman IIs involved in street washing to optimise the use of manpower;

- in December 2001, the MSU had commenced a review of the mechanised street sweeping service with a view to rationalising the frequency of the service and establishing a set of new time standards to achieve cost-effectiveness. The review would cover all day, evening and midnight service routes. It was expected to be completed in May 2002;

- in December 2001, the MSU had commenced a review of the mechanised gully cleansing service in order to establish a set of new time standards to streamline staffing provision and achieve greater operational efficiency. The review would be completed in July 2002; and

- in the medium to long term, to achieve greater cost-effectiveness and efficiency, the FEHD intended to contract out by November and September 2002 respectively, all of the mechanised street sweeping service and 70% of the mechanised gully cleansing service, with the remaining 30% by late 2003. The reviews currently being undertaken by the MSU in respect of mechanised street sweeping and mechanised gully cleansing would be useful in helping the FEHD to decide the time standards and related requirements to be put into future tenders. Besides, the recommendations of the reviews would also be implemented to ensure efficient service pending contracting out to take place.

37. Noting the timetable for contracting out mechanised street sweeping and mechanised gully cleansing services, the Committee enquired how the FEHD would ensure that the terms and conditions for the workers hired by the contractors to provide these services were reasonable.

38. In her letter of 8 February 2002, in ***Appendix 14***, the **Director of Food and Environmental Hygiene** stated that:

- in respect of FEHD contracts, contractors were required to comply with the Employment Ordinance (Cap. 57) and other relevant legislation governing employment of staff. In order to better safeguard the rights and benefits of workers, the FEHD had since June 2001 incorporated labour protective clauses in tenders for provision of services;

- in evaluating submitted tenders including those for the provision of the mechanised street sweeping service and mechanised gully cleansing service, the FEHD would examine the tenderers' manpower plans, in particular the wage levels and working hours offered to their workers. This enabled the Department to assess whether the offers were in line with the conditions in the market and were commensurate with the required standards of service being procured. The offers made in the tender submissions were binding on the contractors upon award of contracts. If the contractual period exceeded seven days, the contractors were required to sign written employment agreements with their workers containing information on rest day arrangements, maximum working hours for each working day and wages payable to the workers, etc.; and

- the contractors' performance, in respect of both the standard of the service provided and compliance with the terms of the contract including the labour protective clauses, was closely monitored. Any contravention and non-compliance would be followed up in accordance with the terms laid down in the contract and the relevant ordinance.

Planned frequencies of MSRs not reflecting the actual cleansing requirements

39. The Committee noted from the supplementary information provided by the Director of Food and Environment Hygiene, in ***Appendix 5***, that the FEHD had reduced the number of MSRs from 36 to 30. They enquired whether the staff affected had been made redundant. The **Director of Food and Environmental Hygiene** replied in the negative. She said that the staff affected had been redeployed to perform other duties. In view of the FEHD's extensive scope of service, there was room for enhancing the provision of different streams of street cleansing services.

40. Audit recommended that the Director of Food and Environmental Hygiene should use the weight of sand and grit actually collected by mechanical sweepers as recorded by the Environmental Protection Department as one of the key and objective indicators for determining the sweeping frequencies of MSRs. However, the Director of Food and Environmental Hygiene said in paragraph 2.9(c) of the Audit Report that the sweeping frequency should not simply be linked quantitatively to the weight of sand and grit collected. There were other factors, such as the relative importance of the road and local expectations, which also needed to be taken into account in determining the optimum sweeping frequency of a particular route.

41. Against the above background, the Committee asked the Director of Food and Environmental Hygiene to elaborate on the factors taken into account in determining the sweeping frequencies of MSRs. The **Director of Food and Environmental Hygiene** said that:

- the FEHD accepted that the weight of sand and grit collected by individual mechanical sweepers was an important indicator for determining the sweeping frequencies of individual MSRs; and

- the actual conditions of the roads, rather than the relative importance of the roads, should also be taken into account. For instance, if more construction works were in progress in a district, there would be more sand and grit deposits on the roads. The FEHD would increase the sweeping frequency

accordingly. Thus the FEHD needed to review frequently the planned sweeping frequencies of individual MSRs in the light of the observation of road conditions observed by the staff in various districts.

Outdated time standards and work values

42. According to paragraph 3.14 of the Audit Report, in the midnight shift, a mechanised gully cleansing team (MGCT) in the Urban Area had two more staff members than an MGCT in the New Territories Area. The Committee considered that if the discrepancy in the staff complement of the MGCTs in the midnight shift was due to safety considerations, safety of the staff in both Urban and New Territories Areas was equally important. The Committee asked about the reasons for the discrepancy.

43. The **Director of Food and Environmental Hygiene** explained that as stated in the Audit Report, in November 1999, a staff member of the FEHD was killed in a traffic accident while performing gully emptying work. After a review, the FEHD introduced the measure whereby the Motor Driver operated another vehicle to provide a precautionary crash barrier for enhancing the safety of the MGCTs at night. The FEHD had not introduced the measure in the New Territories Area solely due to inadequate manpower. The FEHD would conduct a review to ascertain whether safety measures in the New Territories Area could be enhanced.

Part III: Evidence taken at the public hearing on 1 March 2002

44. Referring to her undertaking at the first public hearing to enhance productivity in the provision of the street washing service, the **Director of Food and Environmental Hygiene** reported on the implementation of a trial scheme in this regard. She said that:

- since December 2001, the FEHD had put on trial staggered working hours for Special Drivers and Workman IIs involved in street washing operations. The FEHD had extended the trial scheme to all 20 districts in February 2002. Under the trial scheme, the Special Driver would fill up the water tank of the special-purpose vehicle and complete the preparatory work before the cleansing staff commenced their shift. Such arrangements had raised the productivity in the provision of the street washing service. The FEHD had released five street washing vehicles, five Special Driver posts, 10 Ganger posts and 30 Workman II posts, thus achieving an annual saving of $8.45 million; and

- the FEHD could achieve the intended results, because the staff concerned understood that they should adopt an active and pragmatic attitude in improving the efficiency of the service to optimise the use of resources.

45. **Mr CHEUK Wing-hing, Deputy Director of Food and Environmental Hygiene (Environmental Hygiene)**, gave a presentation on the following areas:

- the organisation chart of the FEHD;
- directorate responsibility in the EH Branch;
- the organisation chart of Operations Division 3;
- job functions of different sections in Kwai Tsing District Office;
- the organisation chart of Kwai Tsing District Office in Operations Division 3;
- the organisation chart of the Cleansing Section in Kwai Tsing District Office;
- the organisation chart of Senior Superintendent (Operations) 3's functions in Operations Division 3;
- the organisation chart of the Mechanised Cleansing Services Unit;
- the mechanism for handling allegations concerning staff misconduct in the FEHD;
- the number of cases of work-related misconduct involving mechanised street cleansing staff;
- a breakdown of the number of complaint cases dealt with by the QA Section since its establishment on 1 October 2000 and up to 30 November 2001; and
- the respective numbers of substantiated complaint cases in the past five years and such cases involving staff responsible for providing mechanised street cleansing services.

The presentation material provided by the **Director of Food and Environmental Hygiene** is in ***Appendix 15***.

Mechanised street cleansing services

46. Referring to the organisation charts of Kwai Tsing District Office in Operations Division 3 and the Cleansing Section in Kwai Tsing District Office on pages 7 and 8 respectively of the presentation material, the Committee queried why, despite the outsourcing of street cleansing services for the district, there were 11 tiers of supervisory staff, i.e. from the Director of Food and Environmental Hygiene to Foreman, in the hierarchy. The Committee further pointed out that in contrast, the contractor responsible for providing street cleansing services had hired only one Contract Manager and eight Supervisors to undertake supervisory work.

47. The **Director of Food and Environmental Hygiene** explained that:

- the FEHD was responsible for providing an extensive scope of service but only a small portion was on street cleansing. She had not quantified this item of work as a percentage of the total workload;

- mechanised street cleansing services were provided by front-line staff, while the supervisory staff and the management above them were involved in many other services;

- each grade or rank had its distinctive duties. Due to functional needs, various grades and ranks existed in the structure of the civil service. Both the scope of service and the level of responsibility did tally with the rank concerned;

- the structure of the FEHD was not unique although its services might be specialised in nature. It should be noted that the approval of the establishment of grades and ranks was a careful process. Even in the times of the municipal councils, the establishment was closely monitored and carefully assessed before approval was given;

- she agreed that there was room for further streamlining the structure of these grades. As the FEHD was contracting out cleansing services in phases, it had completed a review of the Foreman Grade. A scheme which replaced the three tiers of staff used in the management of cleansing contracts by a single tier was being put on trial as a result of the review. The FEHD would adopt the direction that when changes in the nature of a service and its mode of delivery resulted in surplus staff, the staffing structure, including that of the supervisory grades, should be streamlined as far as possible; and

- a large portion of the cleansing work of the FEHD was manual in nature and labour-intensive, which was one of the reasons for having a huge establishment.

48. Noting that the three tiers of staff used in the management of cleansing contracts had been replaced by a single tier pitched at the rank of Senior Foreman, as stated in the Director of Food and Environmental Hygiene's letter of 17 January 2002, in ***Appendix 13***, the Committee were concerned that even after the delayering of the Foreman Grade, there were still two Health Inspectors, one Senior Health Inspector, one Chief Health Inspector, one District Hygiene Superintendent and one Senior Superintendent (District), one Assistant Director (Operations), one Deputy Director (Environmental Hygiene) and the Director of Food and Environmental Hygiene in the hierarchy. The Committee asked whether there was enough work for the senior management and pointed out that many members of the public were worried that only the structure of junior and middle-ranking staff was delayered, while the size of the senior management remained the same.

49. The **Director of Food and Environmental Hygiene** responded that:

- in an outsourcing exercise, the FEHD would set specific requirements for the contractor on the provision of the service. Although assessment would be made on the deployment of manpower as stated in the tender document, the contractor enjoyed flexibility in the deployment. Outsourcing of the service did not mean that there was no need for the FEHD to monitor the provision of the service. The FEHD needed to operate with an appropriate staffing level and structure in order to fully fulfill its monitoring role;

- page 44 of the presentation material revealed the percentage of cleansing-related duties against the total annual working hours of each rank of staff responsible for the mechanised street cleansing service of Kwai Tsing District. Due to the extensive scope of service provided by the FEHD, the Director of Food and Environmental Hygiene and the Deputy Director of Food and Environmental Hygiene (Environmental Hygiene) would not enquire about the day-to-day operation of the cleansing services in Kwai Tsing District every day. Nevertheless, the Assistant Director (Operations) did spend 0.5% of her time attending to cleansing matters of Kwai Tsing District. As the cleansing services covered all types of cleansing work in the district, including street washing and street sweeping, the Assistant Director (Operations) actually spent a negligible amount of time monitoring mechanised street cleansing services. This facet of work was directly undertaken by the Health Inspector. There were only two Health Inspectors

in Kwai Tsing District. They served as the front-line managers of the FEHD who were responsible for management work relating to food establishments, hawkers and markets in the whole district. Only a very small portion of their work was related to the mechanised street cleansing services;

- as far as the provision of environmental hygiene services of Kwai Tsing District was concerned, there were several hundred to 1,000 staff under the command of the hierarchy of staff from the Director of Food and Environmental Hygiene to Senior Superintendent; and

- in the outsourcing process, the FEHD needed to consider manpower deployment and ensure that the service standard would not decline or that the staff would not become idle. In this regard, the FEHD had put some measures in place, such as natural wastage, the Voluntary Retirement Scheme or redeployment of staff to other services.

50. The Committee queried why so many tiers of staff were involved in the supervisory duties over the delivery of mechanised street cleansing services.

51. The **Director of Food and Environmental Hygiene** explained that:

- not all tiers of staff performed the same set of duties. The staff had many other duties in addition to the duty relating to mechanised street cleansing services;

- the first tier of staff responsible for supervision over the provision of mechanised street cleansing services was the Overseer, whose working time was wholly spent on such services. The Health Inspector, who was above the Overseer, was responsible for work in this area as well as other areas. As for the Senior Superintendent, he was almost like the district representative of the FEHD in Kwai Tsing in charge of cleansing services and other work items. As far as direct management was concerned, she agreed to review the staffing structure; and

- regarding the streamlining of the hierarchical structure of the senior management of the EH Branch, the number of Directorate staff was reduced from seven in the USD and the RSD to four at present. The establishment of the EH Branch on the Master Pay Scale had been reduced by 10%, i.e. from 7,729 in the two Departments to 6,940 in the FEHD, whereas the Directorate staff had been reduced by 43%.

52. The Committee pointed out that in the private sector, there was no need for one tier of staff to report to the next higher tier regarding relatively simple work. In many cases, one tier would report directly to two to three tiers above. As far as street sweeping was concerned, the Committee questioned why the Foreman could not report directly to the Senior Health Inspector, who would then report directly to the Assistant Director. As each tier of staff needed to spend a minute amount of his time on cleansing-related duties, it was questionable whether such multi-layered management was effective. It seemed that every member of staff was involved in some supervisory work but no member of staff would be held responsible for mismanagement. The Committee further noted from the organisational structure of Kwai Tsing District Office on page 7 of the presentation material that there were 14 tiers of staff from the Director of Food and Environmental Hygiene to Workman II. Among the eight tiers of staff in the Cleansing Section, only the lowest three tiers were directly involved in street cleansing, with the remaining five tiers performing four major duties, i.e. "to plan", "to inspect", "to supervise" and "to report". The Committee wondered whether this was proof of an elaborate structure and unnecessary duplication of resources, which resulted in the lack of both flexibility and efficiency in the entire structure.

53. The **Director of Food and Environmental Hygiene** responded that:

- the structure was not specifically designed for the FEHD. Upon its establishment in 2000, stability was very important in ensuring continuity of the provision of various services. While maintaining stability, the FEHD had set its goals, that is, undertaking reforms, making improvements and moving with the times. Enhancing efficiency to fulfill public expectations was the FEHD's performance pledge. She had implemented many structural reforms on various areas of work with varying degrees of success;

- as regards cleansing services, the FEHD was aware of the urgent need to conduct studies in the light of Audit's recommendations. Although the FEHD had not conducted any studies on its organisational structure, this did not mean that it would not conduct studies in this area. Rather, before the Audit review in August 2000, the FEHD had considered that it should first deal with other service areas. Its in-house MSU had undertaken 13 management service and establishment studies. The FEHD was gradually implementing the recommendations, which demonstrated its determination for reform;

- the organisational structure of the FEHD would certainly undergo changes. At this stage, before thoroughly considering the matter and without communication and consultation with the staff side, she could not remove one

rank in one day, having regard to the fact that the FEHD was a departmental structure in the civil service. There were justifications for the composition of four ranks for one grade. In creating this grade, every decision went through the establishment vetting procedures;

- the justifications for creating a grade and determining its ranks and size were subject to the strictest scrutiny and assessment by the Administration and monitoring by the Legislative Council (LegCo); and

- in keeping with the reform efforts, she undertook to continue with her efforts to streamline the FEHD's organisational structure and the staffing provision to optimise the use of its resources.

54. The Committee further asked whether the Director of Food and Environmental Hygiene agreed that the EH Branch had a bloated structure with multiple layers, which was wasteful of resources and lacking in efficiency. The **Director of Food and Environmental Hygiene** stated that:

- she did not agree with the Committee. The FEHD had to maintain established service standards. It had received positive comments from District Councils on, and public support for, the performance of the staff responsible for providing cleansing services. Hence, the FEHD needed to consider whether it could maintain the same service standards with reduced resources. She reiterated that she had already undertaken to explore the possibility of further streamlining the structure;

- the service standards and public comments should be used as the indicators for assessing the effectiveness of the resources used in the provision of cleansing services; and

- in conducting a review of the efficiency of the cleansing services and the deployment of resources, complementary facilities, staffing provision and the grades and ranks would be important areas for a comprehensive study. If certain work procedures could be consolidated and some work be taken up by a staff member in addition to his existing duties, the resources saved would be put into those areas in need of more resources. This was a responsible approach to solving the problem. Overall, she was facing the problem squarely rather than avoiding the problem.

Mechanised street cleansing services

55. The Committee understood that reform was a process and the existing structure could not be abandoned all of a sudden. According to the Secretary for the Environment and Food's letter of 17 January 2002, in ***Appendix 11***, the FEHD had completed reviews of the Foreman Grade and the Hawker Control Team operations, and was conducting a Ganger Grade review. As such, it appeared to the Committee that the Administration adopted a horizontal approach to reform, that is, reviewing particular grades of staff rather than the vertical structure of the EH Branch. Referring to the organisation chart of the Cleansing Section in Kwai Tsing District on page 8 of the presentation material, the Committee questioned why there was a need for one Senior Foremen to supervise two Foremen in the street cleansing operation, having regard to the similar duties performed by these two different ranks.

56. The **Director of Food and Environment Hygiene** replied that:

- the Senior Foreman worked in the front-line of the whole Kwai Tsing District. As the supervisor in charge of the overall operation of the service, he was responsible for the staff establishment and the scheduling of shifts. Apart from arranging for cleansing services, Senior Foreman had his own duties;

- as regards the work of Foreman, each directly supervised 38 Workman IIs in refuse collection and a different number of staff in street washing. She would need to consider the matter against the work procedures and accountability of staff, e.g. whether there was an absolute need for a matter to be reported from one layer to the next layer; and

- in implementing structural reform of the civil service, she could not disregard the impact on the staff. She had to hold thorough discussions with the staff side in the process. The FEHD needed to implement its reforms in the direction recommended by the Secretary for the Civil Service. If there was a consensus on room for streamlining, the FEHD should carry out reforms to optimise the use of resources, enhance the productivity and provide services of a higher quality. The FEHD also needed to consider what it could do with existing resources.

57. Referring to the organisation charts of the Cleansing Section in Southern District Office on page 22 of the presentation material, the Committee enquired why:

- the number of staff from District Environmental Hygiene Superintendent to Workman II had increased from 558 in 1999 to 669 in 2002;

- the number of staff hired by the contractor to provide cleansing services had jumped from 35 to 207 in the same period; and

- outsourcing had not helped the FEHD to downsize.

58. **Ms Ronda LO, Assistant Director (Operations) 3, Food and Environmental Hygiene Department**, explained that:

- in 1999, some posts which were not included in the Department's establishment were filled by temporary staff to undertake some areas of work planned for outsourcing. In 2001, these areas were covered in the outsourcing exercise and the contractor needed to increase manpower accordingly; and

- in 2001, the FEHD was constantly increasing its service requirements. For instance, in the past there were not so many public toilet attendants. Currently the FEHD's cleansing contracts covered more public toilet attendants. Moreover, additional types of services, including work which previously fell in the grey area and the classified recycling service, had resulted in the entering into new contracts. The increase of over 200 staff was to meet the total requirement for these contracts.

59. In the light of the above reply, the Committee requested information on the temporary posts concerned. The **Director of Food and Environmental Hygiene** informed the Committee in her letter of 11 March 2002, in ***Appendix 16***, that:

- as regards the temporary posts not included in the establishment of Southern District in 1999, 14 staff, three staff and nine staff were redeployed from other districts or provided through hire of service to undertake respectively the beat sweeping service, the street washing service and the removal of waste from Government land; and

- regarding the figures 558 and 669 respectively for 1999 and 2002, they included 35 and 207 contractors' staff respectively for 1999 and 2002. For these two years, the respective numbers of departmental staff should be 523 and 462.

Mechanised street cleansing services

60. With reference to the organisational structure of the Cleansing and Pest Control Section of Southern District Office in 2002 on page 22 of the presentation material, the Committee requested the Director of Food and Environmental Hygiene to provide respective breakdowns of the departmental establishment of 330 staff and the contractors' 207 staff by type of services provided and the number of street washing teams with the number of routes operated by the FEHD vis-à-vis those of the contractor. The **Director of Food and Environmental Hygiene** provided the information vide the Annex to her letter, in ***Appendix 16***.

61. On the question of accountability of supervisory staff for the misconduct of their subordinates, the Committee noted from the Director of Food and Environmental Hygiene's letter dated 16 January 2002, in ***Appendix 9***, that immediate supervisors should be accountable for the misconduct of their subordinates and non-performance of duty of the staff under their direct supervision. Taking the case concerning the street washing gang as an example, the Foremen of the Cleansing Sections where street washing took place should have responsibility for the performance of the gang. The Committee therefore asked:

- who would be held responsible if the whole team, including the Foreman, was involved in a misconduct case; and

- how far the Senior Foreman, Health Inspector and Senior Health Inspector would be held responsible in this regard.

62. **The Director of Food and Environmental Hygiene** said that:

- if the whole team was involved in the case, the FEHD would ascertain at the disciplinary hearing whether the supervisory tier should be held responsible; and

- the Foreman was directly and fully responsible for supervisory work. There was a need to have tiers like Senior Foreman and Overseer so as to provide more complete supervision. It did not mean that the FEHD was satisfied with the existing organisational structure. She reiterated that the FEHD's direction was to streamline its structure.

63. On the question of staff redundancy caused by the streamlining of the organisational structure, the Committee understood that the FEHD could not dismiss the staff concerned. They asked how, in view of its huge establishment, the FEHD could solve the problem. The **Director of Food and Environmental Hygiene** responded that:

- the FEHD had not avoided addressing the problem of surplus staff. To this end, from 2000 to late 2001, the FEHD had approved more than 2,000 applications for voluntary retirement under the Voluntary Retirement Scheme. The release of these staff would be completed within 2002; and

- as regards the reviews of the Foreman Grade and the Ganger Grade and expeditious implementation of outsourcing exercises, the FEHD hoped that when these were completed, it would process as many as possible the applications for voluntary retirement and approve the applications without compromising the services concerned. This was an orderly as well as least painful approach to streamlining the departmental structure and staffing provision. Consultation with the staff side was of the utmost importance in the process.

64. In the light of the above reply, the Committee further asked whether the FEHD had drawn up a timetable for conducting a comprehensive review of the various grades comprising more than 10,000 staff and, if so, what the general direction of the review would be.

65. The **Director of Food and Environmental Hygiene** replied that:

- the Civil Service Reform had already been put on the Administration's agenda. Every department was seriously considering its structure and the mode of delivery of its services. Under the present economic situation, the FEHD understood the expectation of Members and the public;

- as the Secretary for the Civil Service had announced that the Civil Service Reform must be implemented, the FEHD must participate in the exercise and had the responsibility to submit a proposal. As far as internal matters were concerned, as the most senior officer-in-charge of the FEHD, she would draw up a timetable in the light of the provision of services by the FEHD and her priorities in addressing various issues. The FEHD would expedite the reviews of certain areas of work and conduct the reviews of other areas of work at a later stage. It did have an overall plan in this regard;

- natural wastage was a commonly used method. The vacancies arising from natural wastage or retirement of staff would not be filled. In other words, the FEHD would freeze its departmental establishment. In the process of containing the staff size, apart from the need to adhere to the policy of the civil service, she was empowered to streamline the organisational structure;

- the FEHD had reported to the relevant LegCo Panel on reform of several service areas of the FEHD. The FEHD was putting on trial some schemes. If it was proved that there was room for streamlining the staffing provision, more posts could be released;

- as regards the timetable for cleansing services, the FEHD would complete reviews of certain work values in April and June 2002; and

- there was also a timetable for outsourcing. For instance, the FEHD planned to contract out a portion of the services provided by the mechanised street cleansing fleet before the end of 2002. As a result, the deployment of staff would be revised and the organisational structure would be overhauled before the end of 2002.

66. The Committee further enquired about the most appropriate time for conducting a comprehensive review of the departmental structure. The **Director of Food and Environmental Hygiene** said that:

- the FEHD was established only two years ago. With the addition of new duties relating to food risk management and food safety, it was still early to thoroughly review the functions of the whole Department;

- the FEHD's in-house MSU had undertaken 13 management service studies on different work streams in the EH Branch. With the gradual implementation of the recommendations, the organisational structure of the EH Branch had been undergoing changes. The numbers of Directorate staff, staff on the Master Pay Scale and front-line staff were decreasing. The structure of the FEHD as at March 2002 was very different from when it was established;

- even without the CSB to lead the review of the civil service structure, the FEHD would have vigorously pursued this facet of work. It was not an easy job to manage a department of 14,000 staff and so many areas of work. She was assisted by three Deputy Directors. As far as the Directorate structure was concerned and given that the resources allocated to the FEHD amounted to $4 billion a year, the FEHD's organisational structure was not bloated; and

- however, she reiterated that she considered that there was room for further streamlining. The organisational structure of the FEHD would be kept under constant review to achieve greater effectiveness.

Mechanised street cleansing services

67. Regarding the FEHD's outsourcing initiatives, the Committee noted from the Director of Food and Environmental Hygiene's letter dated 17 January 2002, in ***Appendix 13***, that the FEHD intended to contract out in November and September 2002 respectively all of the mechanised street sweeping service and 70% of the mechanised gully cleansing service, with the remaining 30% by late 2003. The Committee enquired about the savings that could be achieved and the number of staff that would be affected. The **Director of Food and Environmental Hygiene** and the **Assistant Director (Operations) 3** informed the Committee that:

- generally speaking, outsourcing could help save 30% of the original cost in average. Depending on the nature of the service concerned, savings could vary;

- contracting out all of the mechanised street sweeping service and 70% of the mechanised gully cleansing service would affect about 80 staff working in various districts. The staff affected would leave the FEHD through natural wastage or the Voluntary Retirement Scheme. No member of staff would be made redundant;

- these 80 staff included all levels of staff who were responsible for the provision of the services, e.g. Gangers, Special Drivers and Workmen. These grades were all covered by the Voluntary Retirement Scheme. The FEHD was processing some applications from staff of these grades; and

- outsourcing would result in redeployment of staff. If the staff affected expressed disagreement with the arrangement, they could lodge complaints under an established mechanism.

68. Pages 46, 47 and 48 of the presentation material revealed the functions, establishment and annual expenditure of the QA Section of the FEHD. The Committee considered that if the management had performed its duties effectively, there would have been no need for the FEHD to set up the QA Section and incur a huge expenditure.

69. The **Director of Food and Environmental Hygiene** responded that:

- the role of the QA Section was different from that of the departmental management. The QA Section not only checked whether staff responsible for the delivery of services performed their required duties but also reviewed the procedures and arrangements for the services and make recommendations for improvement. The QA Section would also report on good performers for

recognition and commendation by the Director. She considered the establishment of the QA Section a personnel management measure which enabled the work culture of the staff to improve; and

- although the annual staff cost of the QA Section amounted to more than $10 million, the resources originated from redeployment and additional manpower was not required. The FEHD would constantly review the need for the QA Section. If the need did not arise or every member of staff of the FEHD complied with good working practice and the services were very satisfactory, the staff of the QA Section could be deployed to perform other duties.

70. In response to the Committee's enquiry about the way the QA Section conducted its investigations, the **Director of Food and Environmental Hygiene** said that the work of the Section was very transparent. In the case of conducting a review, the Section would inform the officer-in-charge, e.g. Superintendent or Senior Health Inspector of the district concerned, in advance. The QA Section also needed to investigate complaints. In handling complaints, in order to find out the truth, the Section could not inform the officer-in-charge concerned. If the QA Section did not employ indirect methods for investigation, the FEHD would not be able to objectively and independently investigate allegations of dereliction of duty or misconduct. The basic principle of the QA Section was that in conducting investigations, it would not violate departmental provisions or breach the laws of Hong Kong.

71. The Committee proposed that if departmental manpower was not sufficient to conduct various reviews of the organisational structure of the FEHD, the FEHD could seek assistance from the Management Services Agency. The **Director of Food and Environmental Hygiene** responded that the reviews were currently being undertaken by a unit, in coordination with heads of other divisions. After assessing whether it was able to conduct reviews, the FEHD had hired a consultant to undertake some independent work, e.g. in the area of market management. Hence the FEHD was conducting the comprehensive review at full speed.

Recent developments

72. The Committee noted from a press report in late April 2002 that the FEHD had requested the contractor responsible for the provision of public toilet (P/T) attendants in Sai Kung and Tseung Kwan O to reduce the service hours, which would cause substantial wage cuts to the workers concerned. The Committee therefore asked the Director of Food and

Environmental Hygiene whether she could undertake that such kind of initiatives would not be adopted in the FEHD's outsourcing exercise in respect of mechanised street cleansing services.

73. In her letter of 7 May 2002, in ***Appendix 17***, the **Director of Food and Environmental Hygiene** stated that:

- being a responsible government department, the FEHD had to ensure that public resources were best deployed to achieve the maximum cost-effectiveness. For this purpose, it regularly reviewed its services, including those the delivery of which had been contracted out to service contractors;

- in the case of Sai Kung and Tseung Kwan O P/Ts, District Environmental Hygiene Superintendent (Sai Kung), in discharging her district management duties, had taken the initiative to review the usage rate of seven P/Ts in her district which had been on the low side for some time. She came to the view that the low usage rate of these toilets would no longer justify the provision of toilet attendants for eight hours or more a day;

- to minimise the possibility that the toilet attendants might be idling in the venues as a result of insufficient work, the service hours of the toilet attendants were reduced to a range between four to six hours. Two among these seven P/Ts would, however, keep the attendant service hours unchanged for Sundays, public holidays and in the swimming season when the usage rate was high. This move was to ensure effective use of public fund and had the full support of the Department. The FEHD considered that despite this move, the service of the seven P/Ts could still be maintained up to the required standards; and

- the FEHD hoped that the Committee would understand the background behind the reduction in attendants' service hours and would appreciate that, in the interest of prudent use of public fund, it could not undertake that no such kind of initiative would be adopted in the future outsourcing exercise in respect of mechanised street cleansing services. Nonetheless, should such initiative be necessary in future, the FEHD would, as in the case of the P/Ts mentioned above, appeal to the contractor to see if there were ways to keep the possible change to the pay and employment terms of the affected workers to the minimum, e.g. by redeploying them to other jobs.

74. In view of the above reply, the Committee wrote to the Director of Food and Environmental Hygiene, stating their stance on the matter as follows:

- the Committee noted from her letter, in ***Appendix 17***, that the service hours of P/T attendants for some of the P/Ts in Sai Kung and Tseung Kwan O had been reduced, ranging from four to six hours. They also noted from the press report that the service hours had been fragmented into morning and afternoon slots. This arrangement, coupled with the payment of wages on an hourly rate, would inevitably cause substantial wage cuts and incur additional travelling costs to the workers concerned; and

- while acknowledging the various initiatives taken by the FEHD to achieve cost-effectiveness in the provision of mechanised street cleansing services, the Committee would not support the possible adoption, for future outsourcing exercises, of arrangements similar to that for the P/T attendants mentioned above.

75. In response to the Committee's recent request for an update on both the number of complaint cases, the investigation of which had been completed by the QA Section and the number of complaint cases which were still under investigation, the **Director of Food and Environmental Hygiene** provided the information vide her letter of 10 June 2002, in ***Appendix 18***. She stated that up to 31 May 2002, the Section had dealt with 605 complaint cases and 76 complaint cases were still under investigation.

76. The Committee also enquired:

- whether the study on the work practices of the street washing service completed in December 2001 had covered the alignment of work values and safety considerations for the street washing service in the New Territories Area with those in the Urban Area;

- about the present position of the review of the mechanised street sweeping service which was expected to be completed in May 2002, and if the review had been completed, what the outcome was; and

- about the present position of the review of the mechanised gully cleansing service which was expected to be completed in July 2002.

Mechanised street cleansing services

77. The **Director of Food and Environmental Hygiene** informed the Committee in Annex II of her letter of 10 June 2002, in ***Appendix 18***, that:

- the study on the work practices of the street washing service completed in December 2001 had covered the alignment of work values and safety considerations for the street washing services in the New Territories and Urban areas. The relevant recommendations were as follows:

  (a) the New Territories and Urban districts should adopt the same work values for the same street washing operations and water filling operations;

  (b) the New Territories and Urban districts should adopt separate work values for street flushing operations and travelling, given the difference in traffic conditions. Nevertheless, the New Territories districts might also consider using work values of the Urban districts at the urbanised part of the district;

  (c) all street washing gangs should be encouraged to wear safety lights while performing street washing activities at night or on cloudy days; and

  (d) training courses should be provided to street washing gangs on specific skills, such as setting up road safety equipment;

- the MSU had completed the review of the mechanised street sweeping service in May 2002. Major recommendations of the review included:

  (a) sweeping routes should be categorised as A, B and C sites to be swept at a frequency of thrice, twice and once per week respectively. In the categorisation of sites, reference should be made to the annual average daily traffic volume as detailed in "The Annual Traffic Census 2000" issued by the Transport Department in June 2001 as a general guideline;

  (b) adjustments to the proposed frequencies should be made according to the assessment of the Operations Divisions taking into account the impact of other dominating factors, such as proximity to concentration of dust, sand and grit, surrounding landscape, and soil and construction materials being transported;

(c) regular reviews of the sweeping frequencies should be conducted, with reference to the changes in road conditions and the accumulation of sand and grit deposits;

(d) sweeping frequency of twice per week should be adopted for new roads as a start and be reviewed having regard to the traffic volume and other dominating factors; and

(e) the new time standards established for aligning those in the Urban Area and in the New Territories Area should be adopted on a departmental basis for rescheduling existing mechanised sweeping routes; and

- the review of the mechanised gully cleansing service was in good progress. Field studies to establish new time standards and other data collection work had been completed. Pending supplementary observations and data analysis work in June 2002, the review was expected to be completed in July 2002 as scheduled.

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

Idle time

- express serious dismay that:

(a) despite the Secretary for the Civil Service's circular issued on 19 November 1998 urging all Heads of Department to review immediately the existing systems on staff supervision, there is slackness in the management of outdoor staff;

(b) the cleansing staff of the mechanised gully cleansing teams and street washing teams have scheduled idle time other than normal rest time in their daily work, resulting in under-utilisation of their capacity;

(c) significant portions of the mechanised street sweeping service and the mechanised gully cleansing service in the day shift were suspended in 2000 for various reasons; and

(d) when a street is being flushed, only the Special Driver of the street washing team operating the street washing vehicle is working while other team members are idle;

- express astonishment that, immediately after the Audit review, the Food and Environmental Hygiene Department (FEHD) was able to reduce six mechanised street sweeping routes and six mechanised gully cleansing routes, thus achieving annual savings of about $2.83 million and about $4.33 million respectively;

- acknowledge that:

  (a) the Director of Food and Environmental Hygiene has rearranged the street washing routes, reduced the number of street washing teams and put on trial staggered working hours for the Special Drivers and Workman IIs involved in street washing operations;

  (b) a Quality Assurance (QA) Section had been set up on 1 October 2000 in the FEHD and, up to 31 May 2002, had completed the investigation of 605 complaints alleging staff misconduct, and is still investigating 76 cases;

  (c) upon completion of the investigation of a complaint which is substantiated, the QA Section will forward its findings to the Discipline Section for the latter to decide whether disciplinary action should be instituted against the staff member concerned;

  (d) the Director of Food and Environmental Hygiene has undertaken to take vigorous actions and set stringent requirements to ensure staff's compliance with good working practice and discipline;

  (e) the FEHD will continue its efforts to match and redeploy idle Special Drivers and special-purpose vehicles in different districts and vehicle depots with a view to reducing the level of suspension of mechanised street cleansing services; and

  (f) the FEHD is reviewing the provision of staff and special-purpose vehicles for the mechanised gully cleansing service, with a view to ensuring that suspension of services is kept to a minimum;

- express grave concern and find it unjustified that:

  (a) a hierarchy of 10 tiers of staff, i.e. from the Director of Food and Environmental Hygiene to Ganger, is involved in supervisory duties over the delivery of mechanised street cleansing services; and

(b) despite the elaborate system of supervision in its Environmental Hygiene Branch, the FEHD still found it necessary to set up an additional QA Section;

- consider the present multi-layered bureaucratic structure of the Environmental Hygiene Branch an obstacle to the provision of efficient mechanised street cleansing services;

- acknowledge that:

(a) the Director of Food and Environmental Hygiene considers that there is room for further streamlining the organisational structure of the FEHD despite the completion of 13 management service studies on different work streams in its Environmental Hygiene Branch; and

(b) the Director of Food and Environmental Hygiene has undertaken to constantly review the organisational structure of the FEHD;

- concur with the Director of Food and Environmental Hygiene that the system of control should be tightly managed with the help of the QA Section and disciplinary actions should be imposed and followed up promptly and fairly;

Planned frequencies of mechanised sweeping routes (MSRs) not reflecting the actual cleansing requirements

- acknowledge the Director of Food and Environmental Hygiene's statement that while accepting that the weight of sand and grit collected by individual mechanical sweepers was an important indicator for determining the sweeping frequencies of individual MSRs, the FEHD also had to take into account the actual condition of the roads;

- acknowledge that the Management Services Unit (MSU) of the FEHD has completed a review of the mechanised street sweeping service in May 2002 and has recommended that the frequency of the service be rationalised and a set of new time standards be established;

Outdated time standards and work values

- express serious concern that the time standards and work values being used for planning mechanised street cleansing operations are no longer applicable to present-day circumstances;

- recommend that the Director of Food and Environmental Hygiene should revise the time standards and work values for the mechanised gully cleansing operation in the New Territories Area so that the new time standards will reflect the current working conditions in the New Territories;

- acknowledge that:

  (a) the study on the work practices of the street washing service completed in December 2001 covered the alignment of work values and safety considerations for the service in the New Territories Area with those in the Urban Area; and

  (b) the MSU of the FEHD has commenced a review of the mechanised gully cleansing service in December 2001 with a view to establishing a set of new time standards to streamline staffing provision and achieve greater operational efficiency; and

Follow-up actions

- wish to be kept informed of:

  (a) the disciplinary actions instituted by the Discipline Section of the FEHD in respect of substantiated complaints;

  (b) the progress made in implementing the recommendations of the review of the mechanised street sweeping service;

  (c) the results of the review of the mechanised gully cleansing service; and

  (d) the progress made in streamlining the organisational structure of the FEHD.

Chapter 2

Liberalisation of the local fixed telecommunications market

Audit conducted a review to examine the Government's efforts in liberalising the local fixed telecommunications network services (FTNS) market and to identify whether there were areas for improvement in the Government's performance.

Measurement and reporting of the progress of competition

2. The Committee were concerned about the need for the Office of the Telecommunications Authority (OFTA) to improve measurement of the progress of competition. According to paragraphs 2.4 to 2.8 of the Audit Report, compared with the regulatory authorities of some advanced countries, OFTA provided much fewer performance indicators for gauging whether competition was working effectively in the local FTNS market. For instance, the Office of Telecommunications (OFTEL) of the United Kingdom (UK) had set "effective competition - benefiting consumers" as its prime objective. One of the criteria for measuring "consumer outcome" was "Sets of prices which broadly reflect underlying costs (i.e. absence of persistent excessive profits)". The Committee asked:

- about the progress made by OFTA in developing indicators for measuring the degree and benefits of competition in the local FTNS market; and

- whether OFTA would adopt the indicators used by the regulatory authorities abroad, such as the consumer outcome indicators used by OFTEL of the UK.

3. **Mr Anthony WONG Sik-kei, Director-General of Telecommunications**, replied that OFTA would engage a consultant to assist in developing a set of indicators to demonstrate the degree and benefits of competition, with reference to the indicators used by regulatory authorities abroad. OFTA aimed to introduce the indicators by early 2003.

4. Regarding Audit's recommendation that OFTA should conduct periodic effective competition reviews (paragraph 2.9(c) of the Audit Report), the Committee noted from paragraph 2.10(c) that OFTA considered that an opportune time for the first review would be 2003 when the market would have been fully open. The Committee asked about the intervals at which OFTA would conduct regular reviews after the first review.

5. In his letter of 25 May 2002, in ***Appendix 19***, the **Director-General of Telecommunications** said that:

- OFTA would conduct the first review on the effectiveness of competition in the local FTNS market in early 2003; and

- the intervals for future regular reviews would be further considered. At this stage, OFTA considered that it was appropriate to conduct a review once every two years.

6. Regarding the new operators' market share, the Committee were concerned that as at September 2001, six years after the introduction of competition to the local FTNS market, the new operators had achieved an overall market share of 10% only. In particular, their market share in the residential sector was only 5% (paragraphs 3.3 and 3.4 of the Audit Report). The Committee enquired:

- whether the new operators had gained more market share after September 2001; and

- whether, based on the new operators' market share, the Administration considered the progress of competition in the local FTNS market satisfactory.

7. **Mrs Carrie YAU, Secretary for Information Technology and Broadcasting**[1], and the **Director-General of Telecommunications** responded that:

- it would be meaningful to compare the progress of development in competition in the local FTNS market in Hong Kong with other countries where similar market liberalisation had been implemented; and

- the overall market share of the new operators as at April 2002, which was seven years after the liberalisation of the local FTNS market in Hong Kong, was 11%. In comparison, the new entrants in Australia had achieved a market share of only 4.3% seven years after the monopoly of local telephone service there had ended. In the UK, the new entrants had a market share of only 13% 18 years after the end of monopoly. Hong Kong was thus doing better than Australia and the UK.

[1] With the implementation of the Accountability System for Principal Officials, the statutory functions exercisable by the Secretary for Information Technology and Broadcasting have been transferred to the new Secretary for Commerce, Industry and Technology with effect from 1 July 2002.

Liberalisation of the local fixed telecommunications market

Availability of consumer choice

8. According to paragraph 3.13 of the Audit Report, it was OFTA's assumption that all customers served by a co-located exchange would have the choice of switching to the service provided by the new operators. However, the telephone surveys conducted in November 2001 by Audit revealed that this was not the case. In fact, for 30% of the residential addresses selected for the survey, Audit received a "no service" response from all the three new operators[2]. The Committee noted that the new operators had claimed that one of the reasons for the response was that they did not have a list of all the buildings serviced by the exchanges. As the three new operators had started to provide service in 1995, the Committee wondered why they still did not have information on the buildings serviced by their networks in 2001.

9. The **Director-General of Telecommunications** explained that:

- although competition was first introduced to the local FTNS market in 1995, the three new operators needed four to five years to construct their own network infrastructure to provide direct access to customers. It was only in the recent two years or so that they began to interconnect their networks with that of PCCW-HKT Telephone Limited[3](PCCW);

- in recent years, PCCW gradually replaced copper cables with optical fibre cables. However, such information had not been released to the three new operators. Even OFTA was only informed in April 2002 that about 1% to 2% of all buildings in the territory were serviced by optical fibre cables. As such, there had been cases where the new operators thought that a particular address was covered by their networks but in fact was not because the building concerned was no longer serviced by copper cables. OFTA had requested PCCW to release the information to the new operators. Starting from May 2002, the new operators should have more complete and accurate information about whether a particular building, covered by a co-location exchange, was actually serviced by their networks; and

- even if a customer wanted to switch to a new operator, PCCW might reject the application. The rejection rate was quite high. OFTA had followed up the reason for the high rejection rate and found that sometimes an application might be turned down because the information provided by the customer,

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2 The three new operators are Hutchison Global Crossing Limited, Wharf New T&T Hong Kong Limited and New World Telephone Limited.

3 The "incumbent" referred to in the Audit Report is PCCW-HKT Telephone Limited.

such as the name and address, was inconsistent with the information kept by PCCW. OFTA had requested that such mistakes be corrected expeditiously and there had been improvements.

10. Noting that only about 1% to 2% of buildings were serviced by optical fibre cables, the Committee queried why the "no service" response rate revealed in Audit's survey was as high as 30%. They further asked, following the release of the relevant information by PCCW in May 2002, whether OFTA's assumption that all customers served by a co-located exchange would have the choice of switching to the service provided by the new operators, was valid.

11. The **Director-General of Telecommunications** and **Mr AU Man-ho, Deputy Director-General of Telecommunications**, stated that:

- the percentages of 1% to 2% were average figures. The percentage would be higher in those regions where there were many customers and where competition was intense. OFTA understood that at present there were about 200 buildings that were serviced by optical fibre cables;

- a telephone line could be used for both broadband and narrowband services at the same time. Sometimes a customer might apply for changing the narrowband service provider while retaining the broadband service provider. Such applications were rejected in the past because there was no mechanism that allowed this to be done. To resolve the problem, OFTA had issued a statement clarifying that this was allowed;

- OFTA had carried out a telephone survey in November 2001 in parallel with Audit's survey and the findings were similar. Since then, OFTA had conducted telephone surveys every month to ascertain whether local telephone service was available from the three new operators within the coverage of their networks; and

- OFTA had followed up the 27 addresses with "no service" response identified in Audit's survey. The new operators had been reminded that under the licence conditions, they had the obligation to provide service to customers served by the co-located exchanges. The percentage of service availability to customers in the co-location areas had improved. In the survey conducted in March 2002, one of the operators could achieve 100% service availability. OFTA was following up with the other operators that had not yet achieved this target.

Liberalisation of the local fixed telecommunications market

12. The Committee noted that under General Condition 10(3) of the FTNS Licence, the licensee was required to comply with a customer request for the service where the service reasonably could be provided to the customer at the location at which the service was requested utilising the licensee's network in place at the time of request. According to paragraphs 3.13 and 3.16(b) of the Audit Report, the Director-General of Telecommunications also stated that refusal to provide service to customers at locations where an operator's network had coverage was in breach of the licence conditions. The Committee asked whether OFTA considered that the "no service" response given in the cases identified in Audit's survey constituted a breach of the licence conditions.

13. In his letter of 24 May 2002, in ***Appendix 20***, the **Director-General of Telecommunications** informed the Committee that when OFTA received a "no service" response from the customer service staff of a new operator in its periodic surveys, it would take the following steps before determining whether or not the licensee was in breach of the respective licence conditions:

- OFTA would inform the licensee of the results of the survey and particulars of the address for which the customer service staff advised that no service could be provided;

- OFTA would ask the licensee to explain why the service could not be provided to the customer, or the particular building where the customer resided, at the address referred to in the enquiry; and

- upon receipt of the reply from the concerned licensee, OFTA would consider the licensee's submission and, subject to any possible further enquiry, whether there was sufficient evidence of establishing a breach of General Condition 10(3).

14. The Committee further asked, in respect of the 27 cases of "no service" response identified by Audit, whether OFTA had taken any enforcement action against the operators concerned. In his letters of 24 May 2002 and 5 June 2002 in ***Appendices 20 and 21***, the **Director-General of Telecommunications** stated that:

- regarding those cases in which the licensee gave "no service" responses for locations within the coverage of its network, OFTA's legal advice was that there was ground for an investigation of a possible breach of General Condition 10(3) of the FTNS Licence, but OFTA must proceed to consider the following matters before deciding whether the refusal to provide a service did constitute a breach of General Condition 10(3):

(a) the physical constraints that might prevent the licensee from providing the service requested;

(b) the technical constraints that might prevent the licensee from providing the service requested;

(c) measures that the licensee had taken to tackle the problems in (a) or (b) above; and

(d) any other matters which the licensee might submit in explaining the failure to respond positively to a customer's request;

- OFTA had given warnings to the licensees about their obligations under General Condition 10(3). OFTA had considered all the reasons put forward by the two licensees who provided written explanation for the "no service" responses. Some cases were attributed to incomplete information about the coverage of the co-located exchanges of PCCW or problems encountered with co-location at the exchanges. For these cases, OFTA did not consider that there was sufficient evidence that the licensees were in breach of General Condition 10(3). OFTA had taken actions to resolve the problems raised by the licensees. For others, OFTA was not entirely satisfied with the reasons given by the licensees. However, OFTA was given assurances by the licensees that they had taken measures to comply with General Condition 10(3). OFTA also decided to perform monthly surveys to monitor the compliance of the licensees. It therefore did not consider it necessary to take further action against possible breach of General Condition 10(3) identified during the surveys in November 2001, December 2001 and January 2002; and

- in view of the high frequency of "no service" responses given by Hutchison Global Crossing Limited (Hutchison) during the surveys conducted in November 2001, December 2001 and January 2002, OFTA held a meeting with Hutchison on 29 January 2002. At the meeting, Hutchison assured OFTA of its intention to comply with the licence conditions and said that the "no service" responses during the surveys were due to inadequate training of its front-line staff and/or incomplete information about the coverage of co-located exchanges of PCCW. Following the meeting, OFTA noted marked improvement of Hutchison in the survey result. The "service available" response rate was 100% for the months of March 2002 and April 2002. OFTA considered that the response of Hutchison was acceptable and did not consider that legal action should be taken against it.

15. As the fact that not all customers in the areas served by co-located exchanges would have alternative choices of new operators was revealed only after Audit had conducted a survey, the Committee asked how OFTA would know if similar cases occurred in future.

16. The **Director-General of Telecommunications** responded that:

- there were many channels through which OFTA could obtain information about the service provided by the new operators. For example, OFTA had a complaints hotline. All the complaints received would be investigated;

- the new operators' Type II interconnections were only completed about six months ago. Their front-line staff might not understand the licence conditions and hence there might be confusion; and

- following co-ordination by OFTA, PCCW had passed the latest database to the three new operators in early May 2002. The operators would publish the latest information about their network coverage on their respective websites in about two weeks' time. By then, there should be no more confusion. Should there be any further cases where the operators failed to provide service to the customers covered by their networks, OFTA would take follow-up actions. If the operators did not have any reasonable explanations for not providing the service, they would be in breach of the licence conditions and enforcement actions would be taken against them.

17. The Committee pointed out that there had been complaints about the new FTNS operators being selective in providing services to customers. They enquired whether:

- there were provisions in the licence conditions that disallowed such practice; and

- OFTA had received any complaints in this regard.

18. The **Director-General of Telecommunications** replied that:

- in line with the Government's telecommunications policy, the FTNS Licence did not require an operator to provide universal service in Hong Kong. Such service was provided by PCCW as the incumbent and dominant operator in the local FTNS market. PCCW was required to provide service to all areas

in the territory, including remote areas, at a uniform monthly rental of $110 for residential lines. PCCW was providing the universal service at a loss of about $200 million per year and the amount was shared by other telecommunication operators;

- an FTNS operator could select the more profitable regions for providing its service. This was a business decision. However, an operator could not select individual customers in a region that was covered by its network. For instance, if a building was covered by an operator's network, the operator had to provide service to all customers in the building and could not refuse to provide service to the customers on particular floors of the building; and

- OFTA had not received any complaints from members of the public or PCCW about the new operators being selective in providing services.

19. Referring to the Director-General of Telecommunications' reply that the new operators were allowed to provide services selectively to the more profitable areas in Hong Kong, the Committee wondered how, in these circumstances, there could be guarantee that all customers would indeed have alternative choices of FTNS operators. The Committee also enquired about the power of the Director-General of Telecommunications as the Telecommunications Authority (TA).

20. The **Director-General of Telecommunications** stated that:

- the legal basis of the TA's power was the Telecommunications Ordinance (Cap. 106). Under the Ordinance, the TA was responsible for administering the licensing regime and monitoring the market;

- although the FTNS Licence did not require the new operators to provide universal service in Hong Kong, it did specify that an operator should provide a good service in a manner satisfactory to the TA. In the event that an operator chose to provide service to the customers on the upper floors of a building but not those on the lower floors, the TA would not consider such an arrangement satisfactory and would require the operator to explain the reason for doing so; and

- if all operators were to provide universal service at a uniform rate throughout Hong Kong, there would be duplication of resources. Providing services to remote areas had to be subsidised by an operator's other sources of revenue. Hence no new operator would be willing to compete with PCCW in serving

those areas. The Government's policy was to encourage operators to compete in the FTNS market by applying new technology, such as optical fibre cables, broadband service and wireless networks, instead of by constructing the traditional copper cables.

21. The Committee asked how the loss of PCCW incurred in providing universal service was shared among the operators. In his letter of 17 May 2002, in ***Appendix 22***, the **Director-General of Telecommunications** advised that:

- PCCW provided universal service in Hong Kong under a "universal service obligation" imposed on its licence. The net cost of meeting this obligation was shared among all licensed providers of external telephone services (the so-called IDD services), by paying the universal service contribution (USC) in proportion to the volume of IDD traffic handled in a year. PCCW, as a licensed provider of IDD services, was also required to share the universal service cost;

- the regulatory framework and the costing methodology of USC was set out in the TA Statement entitled "Universal Service Arrangement: the Regulatory Framework" issued on 14 January 1998 (the 1998 TA Statement). There was an annual review of the level of compensation based on the costing methodology specified in the 1998 TA Statement. PCCW was only compensated for serving the uneconomic customers. A telephone line for a customer was regarded as uneconomic if the total relevant cost for serving this particular customer exceeded the total relevant revenue; and

- carriers and service providers providing international telecommunications services were required to contribute to the compensation for USC. The contributing parties thus included the fixed and mobile network operators, virtual private network operators and international simple resale operators. The share of contribution to be borne by each contributing party was determined by their respective shares in the total international traffic minutes (both outgoing and incoming). The current level of USC was 6.7 cents per minute of IDD traffic.

22. According to paragraph 3.7 of the Audit Report, the Government estimated that, by the end of 2002, over 50% of the residential customers would have an alternative choice of one of the three new FTNS operators. The Committee asked what the current position was.

Liberalisation of the local fixed telecommunications market

23. The **Director-General of Telecommunications** said that as at 9 May 2002, 49% of the residential customers and 69% of the business customers had an alternative choice of operators. OFTA would carry out a verification exercise on 31 December 2002 to ascertain if the 50% target was met. However, if all the 50% residential customers really chose to switch to the new operators, there would be insufficient capacity to provide service to all of them.

Difficulties relating to interconnections and procedures for making determinations on interconnection-related issues

24. The Committee were concerned that interconnection problems in Hong Kong, like those in other countries, often take a long time to resolve. This might have adverse effects on the business planning and operation of the parties concerned, particularly for the new operators whose market position was comparatively weak. As revealed in paragraph 4.5(b) of the Audit Report, the incumbent might engage in "vertical price squeezing" by deliberately lowering the end-customer charges or keeping them low while increasing the wholesale interconnection prices they charged the new operators, so as to "squeeze" the new operators' profit margin.

25. On the other hand, the Committee understood from paragraph 4.11(b) that the TA adopted a light-handed and market-driven approach to regulating network interconnection. Operators were encouraged to negotiate interconnection agreements on a commercial basis. However, it often took more than one year for the parties concerned to conclude an agreement. Audit's analysis of some completed cases further indicated that the process of determination by the TA took, on average, about 15 months to complete (paragraph 5.9 of the Audit Report). Against this background, the Committee queried whether a light-handed approach was appropriate.

26. The **Director-General of Telecommunications** stated that:

- generally, all advanced countries adopted a light-handed and market-driven approach to regulating the telecommunications sector. This approach allowed the operators to make deals in the most efficient manner. Where necessary, OFTA would conduct mediations to assist the operators in resolving disputes and concluding commercial agreements. The TA might also make a determination on the terms and conditions of the interconnection under section 36A of the Telecommunications Ordinance. The procedures for determination were similar to court proceedings. As a number of stages were involved and hearings had to be arranged, it would take several months

to one year to complete a case. According to the revised procedures for determination, a normal case should be determined in 4½ months while a complex case should be determined in 6½ months; and

- since the liberalisation of the FTNS market in 1995, there were 101 interconnection cases the agreements of which had been reached by commercial negotiations without OFTA's intervention. There were only 15 cases for which TA had to make determinations.

27. The Committee further asked:

- whether it had taken a long time for the parties concerned to reach the agreements for the 101 interconnection cases;

- whether the parties concerned had spent a long time on negotiating the 15 cases before submitting them to the TA for determination; and

- how long the TA had taken to determine the 15 cases.

28. The **Director-General of Telecommunications** replied that:

- as the 101 interconnection cases were negotiated without the TA's involvement, OFTA did not have information on the time taken to reach the agreements. OFTA had knowledge of these agreements because the operators were required to file the agreements reached;

- OFTA did not know the time spent by the operators on negotiating the 15 cases because such commercial negotiations were not subject to any time limit. The parties concerned were free to request the TA to make a determination whenever they considered that an agreement could not be reached. It all depended on the circumstances of individual cases and whether the parties concerned wanted to reach an agreement;

- the determination process for the four cases analysed by Audit (Table 4 of the Audit Report) had been lengthened due to various reasons, including the requests by the parties concerned to suspend the proceedings, to expand the scope of the determination, or to engage a consultant to construct a cost model; and

- in cases where the interconnection or associated work would affect communications between networks, OFTA would direct that interconnection and the associated work be made before a determination were made, if it was technically feasible. The determination was merely to establish the charges, which would then be applied with retrospective effect. The determination process therefore would neither affect the flow of communications traffic between the networks nor hinder the provision of new services by the new operators.

29. As regards how OFTA could prevent "vertical price squeezing", the **Director-General of Telecommunications** advised that:

- the Administration prevented "vertical price squeezing" by imposing strict control on the pricing of the incumbent and dominant operator. Under the law, the charges for any new services introduced by PCCW had to be approved by the TA. The service would have to be offered at the approved charges and PCCW was not allowed to offer discount to customers privately. Such a requirement did not apply to other operators; and

- if PCCW was to reduce end-customer charges, it had to seek the approval of the TA. While he might allow PCCW to reduce the charges for all customers, he would examine carefully if PCCW applied to reduce the charges for a particular category of customers only.

30. The Committee noted that, in order to address the concerns about interconnection problems raised by Audit, the TA had made a statement dated 18 March 2002. The key points of this statement are as follows:

- **Publishing reference interconnection offers (RIOs).** The TA will request the incumbent to publish RIOs for all major interconnection services (including Type I and Type II interconnections). If the incumbent does not accede to this request, the TA will consider publishing the content of all interconnection agreements entered into by the incumbent and filed with the TA under section 36A(5A) of the Telecommunications Ordinance; and

- **Addressing the risk of "vertical price squeezing".** The TA considers that, for the local loops constructed by the incumbent under the protection of monopoly (i.e. before market liberalisation in July 1995), a Type II interconnection charge based on current or replacement cost would be over-compensatory to the incumbent. In such a situation where the charge

might prevent competition to develop, the TA will consider using the historical cost standard for determining the charge.

31. The Committee asked whether, apart from the RIOs, OFTA would also request the operators to publish the contents of their interconnection agreements. They further asked what the status of the determinations made by the TA was.

32. The **Director-General of Telecommunications** responded that:

- all the determinations made by the TA were published on OFTA's websites. These determinations would form precedent cases which would be taken into account by the TA when making future determinations. The TA had to provide an explanation if it departed from a determination made earlier; and

- the agreements reached between the operators were purely commercial agreements and would not be regarded as precedent cases. The operators were required to file their agreements with the TA to facilitate OFTA in monitoring if the operators had been treated fairly. As the agreements contained confidential information, under the law, the agreements could not be published without the consent of the operators concerned. Actually, OFTA had consulted the operators concerned and they objected to publishing the agreements. Under the circumstances, unless there were significant public interest reasons, OFTA would not make public the agreements.

33. According to paragraph 5.14 of the Audit Report, Audit considered that there was a need for OFTA to keep in view its staff profile, so as to ensure that sufficient staff resources and expertise were available to deal effectively with the increasing number and complexity of determination cases. The Committee asked whether the long time taken to make a determination was caused by a lack of staff or expertise in OFTA.

34. The **Director-General of Telecommunications** replied in the negative. He stated that:

- the long time taken to make a determination was due to the procedures involved rather than a lack of staff. OFTA had all along closely monitored its manpower resources and the expertise of its staff. Staff members with expertise in competition matters had been recruited from other countries, such as Australia and the UK, because such expertise was lacking in Hong

Kong. Actually, OFTA had won the title of "Best Asian Regulator" four times since 1998, reflecting that OFTA regulated the local telecommunications market effectively and efficiently; and

- OFTA was discussing with the Civil Service Bureau with a view to introducing a more flexible mechanism for recruiting personnel with the necessary expertise.

35. **Mr Dominic CHAN Yin-tat, Director of Audit**, clarified that the audit observation in paragraph 5.14, which was based on the experience of advanced countries, was forward-looking. He had no intention of relating the long determination process to a lack of staff resources in OFTA.

36. In response to the Committee's enquiries about the transparency of the determination process, the **Director-General of Telecommunications** explained that unlike court proceedings, there were no verbal hearings in the determination process. Instead, the TA would receive and consider written submissions from the parties concerned. While the process was not open, all the determinations made by the TA were published on OFTA's website which was accessible to the public.

37. The Committee enquired about the mechanism in place for enforcing competition in the telecommunications market. The **Secretary for Information Technology and Broadcasting, Ms Gracie FOO, Principal Assistant Secretary for Information Technology and Broadcasting**, and the **Director-General of Telecommunications** advised that:

- the TA was responsible for making determinations or decisions on competition matters in the telecommunications industry. If the operators concerned did not accept the TA's determinations or decisions, they could lodge an appeal with the Telecommunications (Competition Provisions) Appeal Board (Appeal Board);

- the Appeal Board was established under the Telecommunications Ordinance. It provided an independent avenue for aggrieved parties to review the decision of the TA on competition matters. Since its establishment in August 2001, the Appeal Board had received two applications for appeal. However, the applications had been withdrawn by the applicants shortly after they lodged the appeal. Hence, no formal hearing had yet been held; and

- the honorarium for the chairman of the Appeal Board was $400,000 per year. The amount was considered reasonable because under the law, the chairman should possess qualifications equivalent to those of a judge. Moreover, the chairman, while serving as the chairman of the Appeal Board, could not handle any cases relating to telecommunications in his private business to avoid conflict of interest.

Opening of the incumbent's exchanges to new operators

38. The Committee understood from paragraphs 6.4 to 6.7 of the Audit Report that according to the 1998 Framework Agreement, the incumbent should not increase the monthly rental charge for its residential lines until the seven exchanges, referred to in paragraph 6.4, had been made ready for access to the new operator concerned. However, there was no documentary evidence in OFTA's records to indicate that, before the TA approved the increases of monthly rental charge in August 1999 and December 2000, OFTA had verified (e.g. by carrying out site inspections) that the incumbent had fulfilled this requirement. The Committee queried why there were omissions in performing verification of compliance.

39. The **Director-General of Telecommunications** explained that:

- the Framework Agreement aimed at inducing PCCW to make ready those exchanges which were to be taken up by willing new operators for co-location. It did not require the new operators to take up the offers. As long as PCCW had made ready the exchanges for the new operators' access, it had fulfilled its obligations under the Framework Agreement; and

- when PCCW applied for increasing its monthly rental, it submitted a document to OFTA indicating that it had fulfilled its obligations under the Framework Agreement. OFTA had not conducted inspections of the exchanges due to time constraints because, under the law, OFTA had to decide on the application for rental increase within 30 days from the date of application. As PCCW was a large company, OFTA considered that it could accept the company's confirmation of compliance. Even if it turned out later that PCCW had not fulfilled its obligation, the new operators would complain. Hence, the TA approved PCCW's rental increase applications. So far, OFTA had not received any complaint from the operators in this respect.

Liberalisation of the local fixed telecommunications market

40. Referring to the Director-General of Telecommunications' reply, the Committee considered it undesirable that OFTA, as a regulator, simply relied on PCCW's confirmation of compliance in writing when deciding to approve the company's applications for rental increase. The Committee requested that for similar cases in future, OFTA should verify on a timely basis the compliance with relevant requirements by the operators concerned.

41. The **Director-General of Telecommunications** responded that:

- OFTA accepted that it had not documented on file the verification of compliance with the "made ready for access" requirement of the seven exchanges in question. Nevertheless, OFTA had not simply relied on PCCW's written confirmation. In fact, OFTA had weekly meetings with all the operators. If any of the exchanges for which PCCW had issued a "ready for use" notice for co-location could not be used, the new operators would have lodged complaints; and

- it was PCCW's responsibility to comply with the "made ready for access" requirement and to inform OFTA accordingly. OFTA considered that when it could exercise control through established channels and procedures, such as the weekly meetings with the operators, there was no need to conduct specific inspections to verify whether the operators had complied with a particular requirement. Otherwise, OFTA would require much more manpower resources. Moreover, although the TA had approved PCCW's rental increase applications, if it was found out afterwards that PCCW had in fact not fulfilled its obligation, the rental could be reduced again. The consumers would not suffer any loss.

42. According to paragraph 6.6 of the Audit Report, in response to Audit's enquiry, OFTA had sought clarification from PCCW as to whether the seven exchanges had been made ready for access by 1 January 1999. PCCW replied that it had discharged the obligations under the Framework Agreement when it applied for the monthly rental increase for the local residential lines in July 1999. PCCW also stated that it had made ready for access in 1998 four of the seven exchanges in question and that, for the other three exchanges, the new operator's acts (or failures to act) were a material cause of the delay. However, up to 28 January 2002, OFTA had not yet consulted the new operator on the matter. The Committee asked whether OFTA had, by now, ascertained with the new operator concerned if the reason put forward by PCCW was true.

43. The **Director-General of Telecommunications** replied in the affirmative. The details of the process was provided vide his letter of 17 May 2002. In short, OFTA considered that PCCW had satisfied the relevant conditions of the Framework Agreement at the time it applied for the monthly rental increase in July 1999.

Monitoring of fulfillment of commitments by new operators

44. The Committee noted from paragraphs 7.2 and 7.3 of the Audit Report that the three new operators started providing local telephone services in July 1995. In order to allow time for them to construct and operate their networks, the Government granted a 3-year moratorium during which the Government would not issue further local FTNS licences. In May 1999, the Government extended the moratorium to the end of 2002. In return for the extension, the three operators made a commitment of spending $3 billion on capital investment in network infrastructure.

45. The Committee were aware that due to intense competition in the telecommunications market, some operators had complained that they could not secure satisfactory profits and therefore had slowed down their investment. The Committee were concerned that this might adversely affect competition in the industry. They therefore asked whether the new operators had fulfilled their commitments on capital investment.

46. The **Director-General of Telecommunications** and the **Deputy Director-General of Telecommunications** advised that:

- under the Deeds of Undertakings, the new operators were required to provide to OFTA a year-end report on the cumulative capital expenditure. In addition to the commitments for 2002, the new operators had also laid down interim milestones for the years 2000 and 2001. However, failure to meet the interim milestones would not result in the Government taking action to forfeit the performance bonds;

- the $3 billion was the total amount of capital investment undertaken to be committed by the three new operators. The amount to be committed by each operator was different. According to the data provided by the operators on the progress of their roll-out in relation to their interim milestones up to the end of 2001, there should be no problem of their not meeting the commitments by the end of 2002. OFTA was reviewing the information; and

- apart from minimum capital investment, the operators had also made undertakings on the network coverage through "Type II interconnection" to the local exchanges of PCCW. The operators had to invest in order to achieve interconnection. OFTA would inspect all exchanges at the end of 2002 to verify if this commitment had been met.

47. In order to ascertain whether the new operators had been making capital investment actively, the Committee asked about the cumulative capital expenditure made by the new operators in the past few years. The **Director-General of Telecommunications** provided the information vide his letter of 17 May 2002. He stated that:

- the cumulative capital expenditure up to 31 December 1998 made by Hutchison, New T&T Hong Kong Limited and New World Telephone Limited were $1.75 billion, $2.6 billion and $1.2 billion respectively; and

- the cumulative capital expenditure from 1 January 1999 to 31 December 2002 committed to by Hutchison, New T&T Hong Kong Limited and New World Telephone Limited were $2 billion, $400 million and $600 million respectively.

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

Measurement and reporting of the progress of competition

- express serious concern that:

  (a) six years after the introduction of competition to the local fixed telecommunications network services (FTNS) market, the new operators have achieved a market share of only 10%. In particular, their market share in the residential sector is only 5%; and

  (b) compared with its counterparts in some advanced countries, the Office of the Telecommunications Authority (OFTA) provides much fewer performance indicators for gauging whether competition is working effectively in the local FTNS market;

- acknowledge the undertakings of the Director-General of Telecommunications to:

(a) develop more effective indicators to demonstrate the degree and benefits of competition, with reference to the indicators used by regulatory authorities abroad, by early 2003; and

(b) conduct a review in early 2003 on the effectiveness of competition in the local FTNS market when the market is fully open and, thereafter, to conduct further reviews on a regular basis;

Availability of consumer choice

- express concern that, according to the results of Audit's survey conducted in November 2001, not all customers served by the co-located exchanges in the survey had a choice of switching to the service provided by the new operators;

- acknowledge the Director-General of Telecommunications' statement that refusal to provide service to customers at locations where an operator's network has coverage constitutes a breach of the licence conditions;

- express serious concern over the lack of actions by OFTA, in respect of the cases identified in Audit's survey, to enforce the licence conditions which require operators to provide service to customers served by the co-located exchanges;

- urge the Director-General of Telecommunications to ensure that the operators will maintain as far as possible the achievement of 100% service availability to customers in the co-location areas at all times and to take vigorous actions against operators not achieving this target;

Difficulties relating to interconnections

- express concern that interconnection problems in Hong Kong, like those in other countries, often take a long time to resolve, and that this may have adverse effects on the business planning and operation of the parties concerned, particularly for the new operators whose market position is comparatively weak;

- acknowledge that, in order to address the concerns about interconnection problems raised by Audit, the Telecommunications Authority (TA) has made a statement dated 18 March 2002 that:

(a) the TA will request the incumbent to publish reference interconnection offers (RIOs) for all major interconnection services (including Type I and Type II interconnections). If the incumbent does not accede to this request, the TA will consider publishing under the existing legislation the content of all interconnection agreements which the incumbent has entered into with other operators and filed with the TA; and

(b) the TA considers that, for the local loops constructed by the incumbent under the protection of monopoly (i.e. before market liberalisation in July 1995), a Type II interconnection charge based on current or replacement cost would be over-compensatory to the incumbent. In such a situation where the charge might prevent competition to develop, the TA will consider using the historical cost standard for determining the charge;

- urge the Director-General of Telecommunications to make use of the RIOs and interconnection agreements to enhance transparency and facilitate the early resolution of interconnection disputes;

Procedures for making determinations on interconnection-related issues

- express concern that the process of making determinations on interconnection-related issues could take many months to complete;

- acknowledge that, for cases received in or after September 2001, time limits for the completion of each stage of the determination process have been specified in OFTA's revised procedures to facilitate progress monitoring;

- urge the Director-General of Telecommunications to:

(a) closely monitor the progress of all determination cases to ensure that they are completed as soon as possible and within the time limits specified;

(b) carry out a detailed post-determination review on the completed cases to ascertain the factors that have contributed to the long processing time;

(c) document the lessons learnt from the post-determination review for future reference;

(d) set time limits for the completion of those in-progress cases received before September 2001; and

(e) keep in view OFTA's staff profile, so as to ensure that sufficient staff resources and expertise are available to deal effectively with the increasing number and complexity of determination cases;

Opening up of the incumbent's exchanges to new operators

- express dismay that there was no documentary evidence in OFTA's records indicating that, before the TA approved the increases of monthly rental of residential exchange lines in August 1999 and December 2000, OFTA had verified that the incumbent had fulfilled the requirement of opening up his exchanges (i.e. the "made ready for access" requirement) under the 1998 Framework Agreement;

- acknowledge that, following Audit's enquiry in December 2001, the Director-General of Telecommunications has established a chronology of key events and, based on these events, has concluded that the incumbent had fulfilled the "made ready for access" requirement before applying for the monthly rental increases;

- urge the Director-General of Telecommunications to document lessons learnt from this case for future reference;

Monitoring of fulfillment of commitments by new operators

- express concern that OFTA did not verify the information received in cases where satisfactory achievement of the interim milestones under the Deeds of Undertakings was reported by the new operators;

- note that OFTA is verifying the data received from the new operators relating to their interim milestones up to the end of 2001; and

Follow-up actions

- wish to be kept informed of:

  (a) the progress made regarding the development of more effective indicators to demonstrate the degree and benefits of competition;

  (b) the reviews on the effectiveness of competition in the local FTNS market;

(c) the actions taken by OFTA to ensure that the new operators achieve 100% service availability to customers at locations where their networks have coverage;

(d) the progress made in addressing the concerns about interconnection problems;

(e) the progress made in reducing the time taken to make determinations on interconnection-related issues; and

(f) the results of the verification of the new operators' compliance with the interim milestones under the Deeds of Undertakings up to the end of 2001.

Chapter 3

Residential services for the elderly

The Committee held public hearings on 6 May and 4 July 2002 to receive evidence on this subject. The Committee also received additional information from the witnesses after the public hearings.

2. To allow themselves more time to consider the various issues involved and the additional information provided by the witnesses, the Committee have decided to defer a full report on this subject.

Chapter 4

Financial performance of the Post Office

Audit conducted a review on the financial performance of the Post Office (PO) to examine:

- whether new services introduced by the PO in recent years were effective in improving its financial performance;
- whether there was scope for reducing the operating costs of the PO;
- the challenges the PO was facing; and
- whether the PO was gradually eliminating cross-subsidisation among its mail services.

2. The Committee held two public hearings on 8 and 17 May 2002 to take evidence on the issues examined in the Audit Report.

Scope for improving the financial performance of new services

3. The Committee noted that in order to improve its financial performance, the PO had introduced new services, including the postshop, e-post and remittance services, in addition to its traditional mail services. At the public hearing on 17 May 2002, **Mr LUK Ping-chuen, Postmaster General**, provided a list of the profit and loss for postal services in 2000-01 (in ***Appendix 23***). The profit generated by the three new services in 2000-01, on marginal cost basis, were as follows:

Service	Profit
Postshop service	$1,059,000
Remittance service	$86,000
E-post service	$2,327,000

4. According to paragraphs 2.2 to 2.7 of the Audit Report, the PO launched the postshop service in December 1996. The service had an operating profit of $25.7 million in 1997-98. However, in 2000-01, it incurred an operating loss of $4.1 million.

5. In paragraph 2.12(c) of the Audit Report, the Postmaster General stated that, with a view to improving the financial performance of the postshop service, the PO would critically review the manpower deployment and the prospect of merging the Postshop with

the Philatelic Counter at the General Post Office (GPO). The PO would also keep in view the development of postal collectibles and introduce popular and innovative items. The Committee asked whether:

- the review had been completed; and

- the PO had any action plan for reducing the operating costs and increasing the operating income of the postshop service.

6. The **Postmaster General** responded that:

- the operating results of the postshop service, as set out in Table 2 in paragraph 2.6 of the Audit Report, were based on the full cost of providing the service as a "stand alone" project. However, when assessed on marginal cost basis, the service had positive return. In 2000-01, it had an operating profit of $1,059,000;

- the full cost included an allocation of fixed costs such as rental, rates, air-conditioning fees, counter staff costs and administration costs. In contrast, the marginal cost only included the cost of additional resources incurred wholly and exclusively in providing the service. For instance, at present, all the Postshop Corners at the 38 branch post offices were operated with existing resources. Only the Postshop at the GPO was manned by dedicated staff. Thus, when calculating the operating results of the postshop service, only the cost of the dedicated staff was factored in;

- the review on the feasibility of merging the Postshop with the Philatelic Counter at the GPO had been completed. It was considered that implementing the proposal could save one staff member and hence the annual recurrent cost of $250,000. However, there would be costs of design and refurbishment. Patronage might also be adversely affected due to the removal of the Postshop to a less prominent location within the GPO. On the whole, it might not be desirable to pursue the merge; and

- meanwhile, the PO was trying to introduce more items for sale in the Postshop and Postshop Corners with a view to recovering the full cost of providing the service. The situation would be reviewed again in six months' time.

7. Referring to the financial performance of the postshop service in recent years, the Committee asked:

- why the operating results of the service had deteriorated significantly since 1997-98, and whether that was due to the economic downturn in Hong Kong or other reasons; and

- whether there was any chance of achieving an operating result as good as that in 1997-98.

8. The **Postmaster General** replied that:

- the exceptionally high profit of $25.7 million recorded in 1997-98 was due to the surge in the sale of philatelic products associated with the return of sovereignty. Since then, the PO's revenue from philatelic products had decreased due to the downturn in Hong Kong's economy; and

- the good performance of the postshop service in 1997-98 could be regarded as a "once-in-a-lifetime" experience. It would be difficult to achieve an operating result comparable to that year.

9. The Committee noted the Postmaster General's view that the profitability of the postshop service should be assessed on marginal cost basis. However, the Committee considered that it would be more appropriate for the PO, being a trading fund that operated along commercial principles, to assess the profitability of its services on full cost basis. They asked:

- whether, in evaluating the rate of return on fixed assets achieved by the PO, the Administration accepted the use of marginal costing; and

- about the criteria for determining the types of services that should be assessed on marginal cost basis.

10. **Mr Martin Glass, Deputy Secretary for the Treasury**, responded that:

- the Finance Bureau (FB) supported the PO's view that as the postshop service was a relatively small non-core service, it was appropriate to assess the cost on marginal, rather than full cost basis; and

- on the other hand, the essential core services of the PO should be assessed on full cost basis.

Financial performance of the Post Office

11. The **Postmaster General** stated that:

- in deciding on the costing method for a particular type of service, the most important factor of consideration was the PO's obligation to the community, i.e. whether the service would affect most Hong Kong people. Mail delivery service and services provided over the counters, such as the sale of stamps and acceptance of registered items, were regarded as the PO's core business and would be assessed on full cost basis; and

- the postshop service, e-post service and remittance service were regarded as ancillary services because the PO was free to provide them or not. As these services were provided with the PO's existing postal infrastructure, they contributed towards diluting the PO's fixed operating costs and improving the cashflow situation. Thus, the PO considered that the ancillary services should be assessed on marginal cost basis.

12. In view of the Postmaster General's reply, the Committee wondered whether the PO had insisted on maintaining the three ancillary services because existing staff were not fully utilised. The Committee were also concerned that assessing the cost of core and ancillary services on different bases might cause confusion. They further queried whether the PO was subsidising the ancillary services with revenue from the core services.

13. The **Postmaster General** stated that:

- there was no question of the core services subsidising the ancillary services. On the contrary, ceasing the provision of the ancillary services would result in an increase in the costs of the core services as the fixed costs could not be diluted. The PO considered that only the marginal costs of the ancillary services should be taken into account when assessing their contribution because, irrespective of whether they were provided or not, no resources could be saved; and

- he had the practice of referring to two sets of figures, viz. one based on the full costs and the other based on the marginal costs. When both sets of figures indicated a loss, it would no longer be worthwhile to continue the services. Otherwise, he would not consider curtailing them because they made a positive contribution to the PO's overall financial performance.

Financial performance of the Post Office

14. In response to the Committee's request, **Miss Denise YUE, Secretary for the Treasury**[1], offered her views on the PO assessing the profitability of its ancillary services using the concept of marginal costing. In her letter of 28 May 2002 in ***Appendix 24***, the **Secretary for the Treasury** stated that:

- in the case of a traditional vote-funded department, the FB followed the rule that the cost of providing services should be allocated on full cost basis. For a trading fund which was required to generate sufficient revenue to cover expenditure, a more flexible commercial approach could be adopted. While the FB generally agreed that the profitability of a service, especially the basic and core services of a trading fund, should be assessed on full cost basis, there were certain exceptions which justified the use of marginal costing;

- the PO had an extensive retail network of 128 branch offices. Many of the branch offices were not financially viable if the revenue source was restricted to core services. It had therefore been the PO's objective to maximise the usage of its extensive retail network to generate additional revenue through the provision of ancillary services, such as the postshop and remittance services;

- since the fixed costs (such as accommodation and counter staff costs) had to be incurred by the PO in maintaining its core services and its postal infrastructure with or without the operation of the ancillary services, the FB had no objection to the PO using the marginal cost concept (viz. excluding the fixed costs) to assess the financial performance of the ancillary services. By doing so, the PO could focus on those ancillary services that contributed (where marginal revenue was greater than marginal cost) to increasing the profit and hence improving the financial performance of the PO as a whole. Indeed, if the PO were to cease providing the ancillary services which contributed to profitability, the PO's overall profit would be reduced correspondingly; and

- the FB agreed that the PO should continue to strive to improve the profitability of its ancillary services. In this connection, the FB understood that the PO had formed a New Services Steering Committee under the chairmanship of the Postmaster General to find ways of increasing the operating revenue and reducing the operating costs of new services, so as to

[1] With the implementation of the Accountability System for Principal Officials, the statutory functions exercisable by the Secretary for the Treasury have been transferred to the new Secretary for Financial Services and the Treasury with effect from 1 July 2002.

further improve their contribution to the financial performance of the PO as a whole.

15. The Committee invited the Audit's comments on the desirability of assessing the contribution of ancillary services on marginal cost basis. **Mr Patrick K Y LEUNG, Assistant Director of Audit**, said that, as indicated in paragraph 2.10 of the Audit Report, Audit did not object to the PO calculating the profitability of its services based on the marginal costs. However, it was also necessary to take into account the full costs of providing the services in the long run, so that the PO would have all relevant costing information. This would facilitate the Postmaster General in deciding whether a new service should be launched because it would be more desirable to launch a service that could generate profits on both full cost and marginal cost bases.

16. The Committee agreed that it was important for an organisation operating along commercial principles to recover the full costs of its services in the long run. The Committee pointed out that for a commercial organisation, if its mainstream business suffered a substantial operating loss, its priority would be to control costs through such means as staff or accommodation reduction. However, the PO's tactics of dealing with its poor operating results were not in line with commercial principles. It appeared that the PO was insisting on keeping the ancillary services, on the assumption that it could neither cut its manpower nor reduce the number and size of its branch offices. In order to utilise its manpower and branch offices to a fuller extent, the PO would rather provide additional services even though such services could not generate profits when the full costs were factored in.

17. The **Postmaster General** responded that:

- the PO had been trying its best to control the costs of its core services. For example, the PO's overtime (OT) expenditure in respect of delivery postmen had decreased in the last three years, while the volume of mail handled by the PO witnessed a positive growth during the same period; and

- the PO had conducted regular workflow reviews and delivery beat revision exercises. As a result, the productivity of the PO had increased by 10% in the past two years.

18. The Committee considered that the postshop service was basically a commercial activity and wondered whether, by providing the service at a subsidy, the PO was

competing with private companies using public resources. The Committee therefore asked about the legal basis for the PO to provide the three ancillary services in question. The Committee also asked for a list of the products sold in the various Postshop Corners.

19. In his letter of 31 May 2002, in ***Appendix 25***, the **Postmaster General** provided a list of the products sold in the Postshop Corners. On the legal basis for providing the three ancillary services, the **Postmaster General** stated that:

- the legal basis for the PO to provide the three services was contained in the Legislative Council Resolution passed in July 1995 establishing the Post Office Trading Fund. The Resolution provided, inter alia, that the PO might provide the following services:

  (a) receiving, collecting, sending, despatching and delivering postal articles within the meaning of the Post Office Ordinance (Cap. 98);

  (b) retailing stamps and postal related products through counter outlets and appointed agents;

  (c) philatelic services;

  (d) remittance services;

  (e) any ancillary service incidental or conducive to providing any of the services in items (a) to (d), including the services of business reply, express, insurance, post restante, private post office boxes, redirection and registration; and

  (f) agency services for government departments, public bodies and public utilities, which were compatible with postal related services; and

- the Postshop was a retail outlet for postal related products, such as postal stationery, postal souvenirs, miniature posting boxes and postal vans. It was a permitted activity under item (b) above. The remittance service was provided under item (d). The e-post was an advanced postal solution that integrated the processes of receiving data electronically, printing, enveloping, sorting and delivery of mail to customers. It was an ancillary service under item (e) and conducive to providing the services set out in item (a). The process streamlined the entire mail processing chain, and rendered the mail more suitable for machine processing.

Financial performance of the Post Office

20. Regarding the PO's remittance service for the Philippines and Mainland China, the Committee noted from paragraph 2.26 of the Audit Report that the service was not as successful as the PO had anticipated. In 2000-01, the revenue of $243,000 generated from the service was only 11% of the estimated annual revenue of $2.3 million. The Committee pointed out that even using marginal costing, the profit generated from the service was only $86,000. They queried whether such a dismal performance reflected the poor business tactics and lack of competitiveness on the part of the PO.

21. The **Postmaster General** responded that:

- in order to enhance the profitability of the counter outlets, the PO decided to resume the remittance service in 1996. The variance between the estimated and actual revenue of the service might be due to insufficient market research and intense competition in the market. There were many private operators which provided remittance service to the Philippines at a price much lower than the PO; and

- the PO was negotiating with the China Post with a view to providing electronic remittance service to the Mainland. The PO was also discussing with other postal administrations to expand the service to more destinations.

22. Given that the PO was less competitive than private operators even if rental, rates and air-conditioning fees, etc. need not be paid, the Committee questioned:

- why the Postmaster General still refused to cease providing the ancillary services;

- whether it was possible to reduce the fixed cost of the postal infrastructure through other means, such as by reducing the staff complement and the size of the branch post offices; and

- whether the PO had considered outsourcing its services instead of providing them by itself, thereby saving costs.

23. The **Postmaster General** responded that:

- the remittance service was provided by staff in the branch post offices on a part-time basis. Even if the service was ceased, only half a staff member in the PO's Financial Services Division could be saved;

- it was doubtful whether the postal infrastructure, including the network of branch post offices and counter staff, could be reduced even if the PO ceased providing the ancillary services. At present, more than 70% of the branch post offices were manned by two staff members (i.e. one clerical officer and one postman) and could not be reduced further; and

- the PO had been selling its products through other outlets, such as stationery shops and tourist information centres. The products were sold on consignment and the cost involved was low.

24. In the light of the Postmaster General's reply, the Committee considered that the PO did not have the incentive to reduce costs because it was not a genuine commercial organisation. Rather, it was still operated as a government department. When it incurred heavy operating loss, it could resort to costing its services on marginal basis or increasing the postage rates. As the PO's business was financed by the public and not the owners' purse, the management attached less importance to the financial viability of the business. That also explained why the PO was less competitive than the private operators in providing remittance service to the Philippines, even if it excluded the full costs of providing the service. The private operators were providing the service on Sundays and public holidays when the demand was the greatest, whereas post offices were closed on those days.

25. The Committee further pointed out that in the business world, a company would only use marginal costing to assess the viability of a service when the service was new, and on the understanding that it would be withdrawn if unsuccessful. Any additional resources allocated to the service would then be cut. However, if the company wanted to keep the service in the long run, it would definitely take into account the full costs. In this connection, the Committee enquired whether the PO had created any additional posts for providing the three ancillary services.

26. In his letter of 31 May 2001, the **Postmaster General** said that:

- when establishing the Postshop and e-post services, the PO had bought assets amounting to $1.8 million and $14 million respectively. There was no capital investment for the remittance service; and

- the PO had created one Senior Postal Officer and one Postal Officer posts for the Postshop. The PO had since re-deployed half a Senior Postal Officer to other sections. One Senior Postal Officer and one Postal Officer posts had been created at the commissioning of the e-post centre. One more Senior

Postal Officer post had been created upon the commissioning of a back up centre. The PO had not created additional posts for the remittance service.

27. The Committee further asked whether the Postmaster General agreed that it was unlikely that civil servants could run a successful business. The **Postmaster General** responded that:

- the corporate culture of the PO had undergone a significant change since its transformation to a trading fund. The services provided by the PO were all customer-oriented. However, operating as a trading fund along commercial principles was a new experience and mistakes might be made in the early stage;

- whether or not a business was run by civil servants was not a crucial factor. All staff in the PO attached much importance to the need to optimise the use of resources and to reduce costs, and were working towards that direction; and

- the decision to increase postage rates was not made lightly. Instead, the PO had thoroughly considered all relevant factors, including the acceptability of the public and the possible loss of customers after the increase. Having regard to the need to narrow the gap between cost and revenue and to forestall the exploitation of the postage service, the PO had no alternative but to increase the postage rates in April 2002.

28. **Ms Miranda CHIU, Acting Secretary for Economic Services**[2], stated that the Committee's views would be taken into account in the review of postal policy and services being conducted by the Economic Services Bureau (ESB).

29. Referring to the fact that with the exception of 1996-97 and 1997-98 when the PO had substantial windfall profits from philatelic products, the PO had not achieved the target return of 10.5% per annum on fixed assets in the past seven years, the Committee asked whether the FB considered the PO's operating results unsatisfactory. They also enquired when the PO could meet the target rate of return.

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[2] With the implementation of the Accountability System for Principal Officials, the statutory functions exercisable by the Secretary for Economic Services have been transferred to the new Secretary for Economic Development and Labour with effect from 1 July 2002.

30. The **Deputy Secretary for the Treasury** replied that:

- the PO was operating in a competitive environment, both on the international and domestic fronts. It was a reality that due to global and local economic conditions, the PO was facing difficult trading conditions and its rate of return on fixed assets was below target. However, the FB considered that the 10.5% rate of return was a target that should be achieved over time rather than on a year-to-year basis; and

- the PO had taken measures to improve its competitiveness and there was a general forecast of recovery of the local economy. Hopefully, as economic conditions improved, the financial performance of the PO would also improve.

31. The **Postmaster General** added that although he could not foresee when the PO could achieve the target rate of return, the magnitude of the PO's operating loss during the period 1998-99 to 2000-01 was on the decrease.

32. The Committee asked whether there were measures that could help the PO achieve the target rate of return. In his letter of 31 May 2002, the **Postmaster General** advised that:

- as the PO found from experience that it did not have the necessary flexibility in the same commercial manner as a public company, and it had to finance the Government's social obligation to provide universal postal service, it considered that the target rate of return should be reviewed. The PO would discuss with the FB and the ESB for the necessary revision. The comprehensive review currently being carried out by the ESB would also address this issue;

- in the interim, the PO was committed to maximising revenue through both the provision of traditional mail services and the introduction of new and profitable services permitted under the Post Office Ordinance and the Trading Funds Ordinance (Cap. 430). For instance, in expanding the PO's agency services for the Government, the PO had improved the utilisation of its network of branch offices to take over most of the counter payment transactions of government departments. The PO had secured the sorting and exchange of library books service which enabled borrowed books to be returned to the originating library efficiently and promptly. The PO was also negotiating with the Government to sell government publications over its

counters. Its delivery infrastructure could be used to take over the receipt and despatch services of all government departments with efficiency and cost effectiveness;

- the PO had always aimed to contain the growth of capital and recurrent expenditure at the absolute essential level. Cost-cutting and productivity gains had always been on the top of the PO's agenda. The PO's strategies and productivity improvement programmes included:

  (a) more frequent delivery beat revisions;

  (b) process re-engineering to see if further streamlining of process could be achieved;

  (c) contracting out services to achieve economy;

  (d) mechanisation and computerisation to reduce manual handling; and

  (e) conducting staff level reviews to see if the existing staff level at branch post offices should be adjusted to reflect workload; and

- the PO's departmental productivity index had increased by 12.4% over the past three years. The cumulative savings under the Enhanced Productivity Programme amounted to $182 million during the same period.

33. In order to understand the opportunity cost involved in the provision of postal services by the PO's branch office network and the cost-effectiveness of the network, the Committee asked about the rental, size and staff complement of each of the branch post offices. In his letter of 31 May 2002, the **Postmaster General** provided a list each of the following:

- the rent paid for premises leased from the private sector;

- the rent paid for government-owned premises; and

- the assessed market rental for government-owned premises appropriated to the PO.

34. The **Postmaster General** also stated that:

- the PO had 131 branch post offices (including 3 mobile post offices) at various locations throughout Hong Kong. The PO had reduced the size of a new standard small branch post office from 144 square metres to 83 square metres since 1999 for planning purposes;

- the PO had also negotiated with the landlords to downsize the existing offices in line with the new planning parameters where appropriate. However, the PO had not been successful in this respect due to structural and layout constraints. The PO would continue to limit the staff complement in the small post offices to two, which was the bare minimum taking into account the need to ensure office security and to allow operational and rest breaks. The financial performance of the PO's branch post offices network had now been much improved; and

- in view of the comments by the Public Accounts Committee on the size of the PO's retail network, the PO would conduct a review on the existing planning guidelines and the size of the counter post offices to ascertain if it was feasible to revise them to achieve higher cost efficiency in relation to the service level provided to the locality.

35. The Committee further asked about the Postmaster General's views on the future of the three ancillary services in question taking into account the Committee's opinions. In the same letter, the **Postmaster General** stated that:

- the PO had a public service obligation to provide postal services covering the entire territory of Hong Kong. Branch offices were set up in accordance with the Hong Kong Planning Standards and Guidelines which took into account the proximity between offices and population. Most of the post offices were not financially viable when only the core postal services were conducted. Introduction of new services to maximise the utilisation of existing resources was therefore an effective and practical means to dilute the cost of the infrastructure, which would otherwise have to be borne by the core postal services;

- in venturing into new services, the PO took into consideration factors such as the size of investment, whether there would be a positive financial contribution, and the future outlook of the new services;

- there were also intangible benefits other than direct revenue from the three new services in question. In the case of Postshop, the sale of a range of products relating to stamps would promote an interest in philately and stimulate demand for philatelic products. The sale of postcards would also increase local and overseas mail traffic. Regarding e-post, it was an important and effective instrument to retain customer loyalty; and

- taking into consideration the views of the Public Accounts Committee and the recommendations by the Audit Commission, the PO's New Services Steering Committee would review the profitability and viability of these new services on a continuous basis. The PO would fully assess their market risk and potentials and would always keep its capital investment to the minimum until market share could be established.

Scope for reducing operating costs

36. The Committee were concerned about the PO's system of controlling and monitoring of OT of delivery postmen. According to paragraph 3.27 of the Audit Report, some delivery postmen were required to report for duty earlier than the start time of their conditioned working hours. The extra working time (usually one hour daily before the start of the day's conditioned working hours) qualified the delivery postmen to claim OT allowance. It appeared to the Committee that it was the PO's standing arrangement to require some delivery postmen to perform one hour of OT work every morning, irrespective of the mail volume of a day and whether the postmen could finish the work required of him within the conditioned working hours. The Committee queried whether such an arrangement was wasteful of staff resources. They also asked whether it was possible to advance, by one hour, the start time of the delivery postmen's daily working hours, so that the supervisory staff could ascertain if OT work was really required when a postman completed all his work at the end of the day.

37. The **Postmaster General** responded that:

- the duty time of delivery postmen was made up of preparation time and delivery time. Preparation was indoor work and delivery was outdoor work. In March 1999, the PO completed a study to establish the standards for the mail preparation work of delivery postmen. In May 1999, the PO conducted an extensive beat revision exercise using the new work standards. However, the PO considered it impracticable to devise a set of standards for delivery work, as there were many variable factors, such as location of the addressees, the mode to reach the addressees, and the bulkiness of the mail items;

- the new mail preparation work standards only provided a general yardstick to assess the standard time required for indoor mail sorting work. The amount of mail to be sorted before delivery differed every day. In reality, after a delivery postman had prepared the mail in the morning, the field supervisor would measure the height of the mail, which would then be used as the basis for working out the preparation time according to the mail preparation work standards. If it was found out that the total time taken for mail preparation and delivery would not exceed the postman's conditioned working hours, although he had reported for duty one hour earlier in the morning, no OT allowance would be granted for that day; and

- the PO had to set a standard time limit for completing the mail preparation work in the morning. For instance, the sorting of letters according to the delivery beats had to be completed by 9:30 am, so that the delivery postmen could then sort the letters according to the delivery sequence along the delivery beat. If different working hours were adopted for different delivery postmen, mail preparation work, and hence mail delivery work, might be delayed. Customers would complain.

38. The Committee asked whether OT allowance would be granted in those cases where OT work was considered not required based on the height of the letters sorted but longer than usual time was spent on delivery.

39. The **Postmaster General** replied that:

- in making the decision, the PO management would take into account the actual circumstances of the case. In justified cases, OT allowance might be granted if more than one hour of OT work had been performed. If the OT work was less than one hour, time-off-in-lieu might be granted; and

- if such cases occurred frequently, the PO would review if the workload of the delivery beat concerned was too heavy. If necessary, the PO would revise that delivery beat.

40. The Committee were concerned that, as revealed in paragraph 3.32 of the Audit Report, out of the 120 delivery beats covered in the PO's Quality of Service Surveys during the period April to September 2001, there were 52 delivery beats (43.3%) in which the OT claimed by the delivery postmen could not be justified by their workload. Audit estimated that the annual OT allowance claimed by delivery postmen of all the 1,690 delivery beats,

which could not be justified by workload, would amount to $21.3 million at 2001-02 prices. The Committee considered that such a significant amount of unjustified OT claims called into question the effectiveness of the PO's control and management of OT work.

41. The Committee further noted from paragraph 3.25 that the PO's senior management had announced that it would take disciplinary action against those delivery postmen who deliberately slowed down their work pace. In order to ascertain whether the PO had vigorously enforced the control of OT work, the Committee asked whether the PO had taken any disciplinary action on cases of improper OT claims in the past three years.

42. The **Postmaster General** explained that:

- the PO attached utmost importance to cost control, including control on OT, in order to achieve a balance between revenue and expenditure. That was why the PO established the new work standards for mail preparation work and conducted an extensive beat revision exercise in 1999. Before the work standards were established, there were many arguments between the management and the staff over the evaluation of workload. The new standards were now accepted by both the management and the staff;

- the mail preparation work standards were, however, not the only way for assessing the daily workload of delivery postmen, which was affected by many different factors, such as unexpected increase in the volume of heavy mail items and items requiring the proof of delivery. All these factors had a bearing on the workload of delivery postmen. It was therefore inappropriate to assess the daily workload of a delivery postman by simply applying a mathematical formula based on predetermined normal mail preparation work standards;

- there had been cases of improper claims of OT allowance. Apart from taking disciplinary actions, the PO had also dealt with some cases by education and discussion with the staff members concerned; and

- as regards the 52 delivery beats in which the OT work claimed by the delivery postmen could not be justified by workload, as revealed by Audit, the PO had not been given sufficient time to gather the necessary supporting documents before the cut-off date for responding to the draft Audit Report.

Financial performance of the Post Office

43. At the Committee's request, the **Acting Postmaster General** provided a list of the disciplinary cases on false claim of OT allowance from 1 April 1999 to 9 May 2002, vide his letter of 15 May 2002 in ***Appendix 26***.

44. Referring to the Postmaster General's reply, the Committee wondered why the information relating to the OT claims was not readily available and hence could not be provided in time to Audit for examination. This was particularly unsatisfactory as the information was related to cost control and supervisory staff had to rely on it in deciding whether the OT claims were justified.

45. The Committee also understood from paragraph 3.35 of the Audit Report that out of the 120 delivery beats covered by the PO's Surveys, the average weight of the mail delivered by each of the 52 delivery beats with unjustified OT exceeded that delivered by each of the 32 delivery beats (in which the delivery postmen did not claim any OT) by only 2%. Audit also found that the actual number of items which required the proof of delivery and which were delivered by the 52 delivery beats was 6% less than the estimated number of items used by the Beat Survey Team for assessing the workload of the delivery postmen. Under the circumstances, the Committee doubted why the PO still considered that the OT of the 52 delivery beats was justified.

46. The **Postmaster General** reiterated that as the cases checked by Audit occurred more than one year ago, the PO needed time to gather the records of the relevant OT claims. However, the time allowed by Audit for the PO to respond was too short. Thus, the PO could not provide evidence to prove that the OT claims were justifiable. The records had now been gathered and could be submitted to the Committee for inspection. He further said that:

- in order to ascertain whether OT work was really required of the 52 delivery beats, the PO had checked all the records available. Generally, it was considered that OT work was genuinely required because of various reasons, such as the additional time taken for delivering mail items requiring proof of delivery and household circulars. The delivery of company annual reports, which were heavy-weight items, also created extra workload as they had to be delivered to the doors of the addressees. When the regular delivery postman took leave, his duties would be performed by the leave reserve delivery postmen. As the substituting postmen were not familiar with the delivery beat, they needed extra time to finish their tasks;

- some delivery postmen had carried out additional duties, such as delivering mail bags to pouch boxes, and thus incurred OT. When there were additions of new housing units, the postmen would also need additional time to finish their delivery work. In addition, OT had been required of some delivery postmen for delivering Speedpost and Local CourierPost items. These were time-sensitive items and priority would have to be given to them. Delivery routes would have to be changed, resulting in additional travelling time; and

- it was noteworthy that in a live situation, the PO relied on the field supervisors to exercise their judgement in granting OT, having regard to all relevant factors. The judgements made by the field supervisors would be difficult to quantify.

47. Regarding the Postmaster General's claim that Audit had not allowed sufficient time for the PO to respond to the unjustified OT claims, the **Assistant Director of Audit** stated that:

- Audit did not accept that the PO had not been allowed sufficient time to respond to the Audit observation. The Audit investigation commenced in June 2001. In mid-December 2001, a draft report was passed to the Postmaster General for consideration. In the following two weeks, Audit and the PO discussed the report and revisions were made. The final report was passed to the PO on 20 January 2002 and the PO responded on 11 February 2002. Thereafter, Audit asked for further information from the PO again and allowed time for the PO to respond; and

- the PO had been given a total of two months to respond to the Audit Report. Audit staff had also ascertained with the PO whether there were any relevant documents that they had not seen.

48. The **Postmaster General** stated that the PO had exchanged correspondence with Audit on general issues at the earlier stage. The question of unjustified OT was raised at a later stage and the time given by Audit for the PO to respond to this specific observation was relatively short.

49. At the Committee's request, the **Postmaster General** provided, vide his letter of 15 May 2002, an analysis of the justifications for the OT claims of the 120 beats, and copies of the supporting documents for the 52 delivery beats with unjustified OT. He also advised that:

- it was an over-simplification to apply rigidly a mathematical formula based on standard mail preparation rates. The PO relied on the field supervisors to exercise their discretion in scheduling duties for delivery postmen and in granting OT, taking all relevant factors of the day into account. The exercise of such discretion was monitored by field inspections by at least two senior level officers at an unannounced interval;

- the mail preparation work standards could only provide a general yardstick to assess the time required for the corresponding outdoor work. No amount of records could substantiate on a retrospective basis the supervisors' judgement on the outdoor work requirement with 100% confidence; and

- the PO admitted that its record-keeping for OT justifications was currently fragmented and had to be improved. So far, the PO had not been able to identify relevant supporting documents to justify the OT claim for some beats on the days selected for inspection. Remedial actions had been taken, including the adoption of a standardised and comprehensive form for recording OT justifications on a day-by-day and beat-by-beat basis. The PO would continue to exercise very strict control over the granting of OT.

50. The Committee considered it highly unsatisfactory that there were no supporting documents to justify the OT claim for some beats. They queried whether this reflected slackness in the PO's control of OT. They invited Audit's comments on the supporting documents provided by the Postmaster General in respect of the OT claims by the 52 delivery beats. In particular, the Committee asked whether, after examining the documents, Audit still considered that the OT claims could not be justified by workload.

51. In his letter of 1 June 2002 in ***Appendix 27***, the **Director of Audit** advised that:

- to seek clarifications on the additional information provided by the Postmaster General, Audit held a meeting with the senior staff of the PO on 22 May 2002. Subsequently, the Postmaster General provided further comments to Audit; and

- based on the additional information provided by the PO, Audit found that the PO's explanations for OT work mainly fell into seven categories, as follows:

  (a) additional time required for delivery of packets and for handling of mail items requiring redirection;

(b) additional time required for delivery of mail items requiring proof of delivery;

(c) additional time required for delivery of Hong Kong Post Circular Service items;

(d) addition of new housing units;

(e) waiting time of delivery postmen;

(f) inexperienced leave reserve delivery postmen; and

(g) additional time required for carrying out additional duties.

52. In the same letter, the **Director of Audit** provided detailed comments on the PO's explanations. He also stated that:

- Audit's assessment of the workload of the delivery beats had already made an allowance for the time needed by the delivery postmen to perform some incidental duties. As stated in Note 10 to paragraph 3.34(a) of the Audit Report, the mathematical model used by Audit to assess the workload of the delivery postmen was the same as that used by the PO's Beat Survey Team. In addition, Audit had allowed additional time for the delivery postmen to deliver the additional mail items, even though the PO, in determining its work standards for mail preparation work in 1999, considered that the extra delivery time for handling the additional mail volume was insignificant;

- as stated in paragraph 3.25 of the Audit Report, during the beat revision exercise, the Beat Survey Team recorded, for each delivery beat, the actual delivery time required by the delivery postman to finish his daily delivery work. The daily work of the delivery postmen had already included the delivery of packets, bulky packets and mail items requiring proof of delivery (PD items), and the handling of mail items requiring redirection (RD items). Therefore, there would be no need for the delivery postmen to work OT and raise OT claims, unless the actual numbers of packets, bulky packets, PD items and RD items were much larger than the PO's expected mail volume for a particular delivery beat;

- in his justifications for the OT work, the Postmaster General had emphasised that he relied on the field supervisors to make on-the-spot judgement in assessing the workload of the delivery postmen. However, the Postmaster

General had admitted that "comprehensive records were not readily available for supporting the OT incurred". In the absence of detailed supporting documents, Audit could only use the mathematical model and work standards (which was the norm arrived at by an extensive beat revision exercise conducted by the PO) as the basis for assessing the workload of the delivery postmen; and

- based on the above observations, Audit maintained the view that the OT claims of the 52 delivery beats concerned could not be justified by the workload of the delivery postmen.

53. The Committee noted that there was scope for reducing the PO's operating costs by reducing the delivery frequency of its delivery beats. According to paragraphs 3.1 to 3.12 of the Audit Report, as at 31 August 2001, the PO operated 1,238 once-delivery beats and 452 twice-delivery beats. During the period January 2000 to December 2001, the performance (in terms of percentage of locally posted letters delivered to addressees by the following working day) of twice-delivery beats was only slightly better than that of once-delivery beats by 1.2%. During the period April to September 2001, 24% of the twice-delivery beats delivered not more than 50 mail items daily in the second delivery and 30% of the twice-delivery beats delivered not more than 5% of the daily mail items in the second delivery. Based on Audit's analysis, it appeared to the Committee that the second delivery was not cost-effective. The Committee therefore enquired why the PO considered it inappropriate to reduce the number of twice-delivery beats.

54. The **Postmaster General** explained that:

- from the experience of the once-delivery beats, reducing the delivery frequency from twice a day to once a day would result in a longer time being required for mail preparation work, thereby delaying the time when the postmen could depart for mail delivery. As a result, the time when the customers received their mail would also be delayed; and

- at present, twice-delivery service was provided mainly to commercial and industrial areas only. These commercial customers had the need to receive their mail items in the morning so that they would be able to respond to any incoming mail items before the end of their business hours in the same day. If the delivery frequency was reduced to once a day, about half of the commercial customers would receive their mail items in the afternoon. Then they could only respond to the incoming mails on the following day. The efficiency of the business community would be seriously impeded. This

would be undesirable and would not be accepted by the commercial customers.

55. In response to the Postmaster General's reply, the Committee referred to paragraph 3.10 of the Audit Report which stated that in 1999-2000, the PO conducted a survey on the opinions of commercial customers about delivery frequency. The survey results indicated that only two out of the 630 commercial customers interviewed objected to reducing the daily delivery frequency to once a day. The Committee questioned why, in the light of the survey results, the PO still considered that converting the twice-delivery beats to once-delivery beats would not be accepted by the commercial customers. They further enquired whether the postal administrations of other overseas countries also made two deliveries a day for the commercial areas.

56. The **Postmaster General** responded that he had no knowledge of the delivery frequency of other postal administrations. The survey in 1999-2000 was only conducted in five districts and not the entire territory. Actually, the delivery frequency for some of the five districts had already been converted to once a day.

57. Paragraph 3.18(d) of the Audit Report stated that the PO had started another delivery beat revision at delivery offices (DOs) in August 2001. Audit's suggestion to reduce the delivery frequency would be considered in the exercise. The Committee asked about the progress of the revision exercise.

58. The **Postmaster General** replied that:

- the review of delivery beats at DOs was a continuous process. There were 21 DOs covering the entire territory and the PO would review the DOs one by one. At present, the GPO was being reviewed. It took about two years to complete the review of all the 21 DOs;

- the review covered different facets of the work at a DO, including the workload of the delivery beats, the entire workflow and the delivery frequency. During the review, the PO's survey staff would conduct field inspections to the DO and study whether it was possible to reduce the delivery frequency. If it was found that some twice-delivery beats could be converted to once-delivery beats, the conversion would be implemented at once, without having to wait for the completion of the review of all the DOs;

- the lighter delivery workload of twice-delivery beats in the afternoon (i.e. the second delivery) was due to the workflow. With the implementation of 24-hour sorting at the sorting centres from 1999, the amount of letters sent to the DOs in the morning had increased significantly. Hence, there were much more letters for delivery in the morning than in the afternoon. In some areas, the ratio could be 9:1; and

- to improve the situation, the PO was considering the feasibility of extending the delivery time in the morning by half an hour, with a corresponding reduction in the delivery time in the afternoon. This would enlarge the area covered by a DO and reduce the number of delivery postmen required, while still maintaining two deliveries a day. If possible, the delivery time in the morning would be further extended by another half an hour with a view to further enlarging the area covered by a DO and further reducing the number of delivery postmen.

Need to eliminate cross-subsidisation among mail services

59. According to paragraph 5.14 of the Audit Report, in April 1995, the ESB recommended that the PO should set, as a long-term postal pricing policy, the objective of gradually reducing the extent of cross-subsidisation among mail services. However, although the PO had implemented higher percentages of postage rate increase in June 1995 and September 1996 for those services which incurred losses, the PO still had not been able to eliminate cross-subsidisation by those services which generated profits.

60. The Committee also noted that although the PO aimed in 1996 to achieve breakeven for the bulk bag service within three to four years, the service continued to be heavily subsidised. In 2000-01, the operating loss of the service was $20.5 million, representing 65% of the PO's overall operating loss. During the period 1996-97 to 2000-01, the postage received from the service was insufficient to cover the PO's total costs of providing the service. Moreover, the service only had a few users. Against this background, the Committee queried:

- why the PO had failed to achieve breakeven for the bulk bag service; and

- the components of the PO's total cost for providing the service.

Financial performance of the Post Office

61. The **Postmaster General** stated that:

- the purpose of the bulk bag service was to encourage the mailing of printed matter in bulk quantity to places abroad. The PO had set the target of achieving breakeven for the service by increasing its postage rate by six to seven percent above inflation each year;

- in 1996-97, the PO had substantial profits from the sale of philatelic products. Hence, the postal rates were not increased. In view of the economic downturn in recent years, the postal rates were again not raised. It was only in April 2002 that the PO had increased the postage rates for different mail services, including that for the bulk bag service which had been increased by $4 per kilogramme of mail;

- the PO's total cost of providing the bulk bag service was made up of the terminal dues paid by the PO to the postal administrations abroad, the conveyance charges paid by the PO to the shipping companies, and the local handling costs incurred by the PO on the service;

- the bulk bag service, by itself, had been operating at a loss. However, due to the different levels of terminal dues charged for letters of different weights, the PO could achieve savings in the total terminal dues because of the heavy bulk bag mail. For instance, while the bulk bag service had an operating loss of $20.5 million in 2000-01, the PO saved $21.4 million in total terminal dues because of the heavy-weight bulk bag mail items at the same time; and

- at present, the terminal dues for one kilogramme of letters comprising letters each weighing 20 grammes, 48 to 71 grammes, and 1,000 grammes were HK$80, HK$34 and HK$11 respectively. When the weight of an out-bound letter was 1,000 grammes or close to 1,000 grammes, the terminal dues incurred would be the least.

62. In response to the Committee's request, the **Postmaster General** provided, vide his letter of 15 May 2002, information on the impact of bulk bag service on terminal due payments for the period 1996-97 to 2001-02. He added that the bulk bag service, by itself, had an operating loss in each of these six years. However, when the weight and quantity of the bulk bag mail were factored in the total amount of terminal dues payment for all outward mail services, savings could be achieved in the total amount of terminal dues paid by Hong Kong. As a result, there were net gains for providing the service in the years 1998-99 to 2001-02.

63. The Committee wondered, when the postage rate for the bulk bag service was increased to a level that enabled the PO to achieve full-cost recovery, whether the few top users would continue to use the service. The **Postmaster General** said that according to the PO's understanding, after the postage rate for the service had been increased by $4 per kilogramme of mail, the users might choose to send their mail to overseas countries by other means. As a result, there would be an impact on the total terminal dues paid by Hong Kong.

64. Referring to the Postmaster General's reply, the Committee asked:

- if the PO considered that increasing the postage rate for the bulk bag service would lead to a loss of customers, why it agreed in 1996 to set the target of achieving breakeven by increasing the postage rate;

- whether the reason for the users switching to other service providers was in fact due to the PO's being less competitive than the private operators in the market; and

- whether, after the PO had increased the postage rate for the bulk bag service by 15.5% in September 1996, it had lost any customers.

65. The **Postmaster General** stated that:

- the PO had not lost the customers of the bulk bag service after the postage rate increase in 1996. However, the local economic situation was different and competition was not very intense at that time. There were more service providers available in the market nowadays;

- the PO was still working towards achieving breakeven by increasing the postage rate. After all, whether the users would really switch to other service providers was their business decision. The PO would review the situation if the users really stopped using the bulk bag service; and

- it was true that the PO was less competitive than private operators in terms of price. However, the customers would take into account the PO's quality of service in choosing the service provider.

66. In response to the Committee's request, the **Postmaster General** provided, vide his letter of 15 May 2002, a summary listing of the published service charges of some local commercial express couriers.

Need for comprehensive review of postal policy

67. According to paragraphs 4.2 to 4.8 of the Audit Report, one overseas postal administration and some overseas mailers had bypassed the international mail system and exploited the local postage system by sending international mail to their agents in Hong Kong. The local agents would deliver the mail items directly to the addressees in cases where it was more economical for them to do so (e.g. in business districts). For mail items addressed to remote areas, they would pass them to the PO for delivery, paying local mail postage. In doing so, the overseas postal administration had deprived the PO of the receipt of terminal dues. According to the PO's estimation in 2001, it would lose $24 million in annual revenue as a result.

68. The Committee noted from Note 14 to paragraph 4.3 of the Audit Report that terminal dues were introduced by the 1969 Tokyo Congress of the Universal Postal Union (UPU) as a means of compensating postal administrations for the costs incurred in handling mail received. The Committee asked about the mechanism for determining the level of terminal dues.

69. The **Postmaster General** explained that:

- terminal dues were payment by the sending postal administration to the destination administration for letter delivery. These were payable when there was weight differential between the letters sent and received by a postal administration. For instance, if a postal administration sent to the destination administration letters weighing two kilogrammes and, in return, only received one kilogramme of letters from the latter, the sending postal administration would have to pay terminal dues to the destination administration; and

- the executive body of the UPU met every two to three years to discuss the terminal dues. The final authority for determining the levels of terminal dues vested with the congress of the UPU held once every five years. The amount of terminal dues charged for each kilogramme of letters would be reviewed at the congress. Since 1989, the system became more complicated as different levels of terminal dues were applied to developing countries and

developed countries. Taking Japan and Hong Kong as an example, Japan was a developed country while Hong Kong was a developing area. The levels of terminal dues applied to Hong Kong were lower than Japan.

70. The Committee asked whether the overseas postal administration, which had bypassed the international mail system, had violated any international law and whether the PO could lodge a complaint with the UPU. As the international mail service of the PO was a profitable service while the local mail service was operating at a loss and had to be subsidised, the Committee asked whether the overseas postal administration's being able to exploit the local postage system was due to the PO's inflexible pricing structure.

71. The **Postmaster General** responded that:

- several postal blocs (a postal bloc comprised a number of different postal administrations) had emerged in the world in the wake of globalisation in recent years. In order to raise profits, these postal blocs tended to make their own arrangements for sending international mail items to the destination administrations, as in the present case. Such arrangements were not regulated by the UPU or international law. Whether the postal blocs' arrangements for sending international mail were allowed would depend on the law of individual postal administrations. In Hong Kong, such practices were not illegal as there were no provisions under the Post Office Ordinance that disallowed them; and

- international mail items sent to Hong Kong through normal channels comprised items of different weights. While the PO received only $0.7 as terminal dues for delivering an inward overseas mail item weighing 20 grammes (a light-weight item), it received $70 for delivering an inward overseas packet weighing 2 kilogrammes (a heavy-weight item). On the whole, the revenue from terminal dues received for heavier items would be sufficient for subsidising the cost of delivering light-weight items.

72. In view of the Postmaster General's reply, the Committee referred to paragraph 4.9 of the Audit Report which stated that under the Post Office Ordinance, the Postmaster General had the exclusive privilege of conveying letters from one place to another within Hong Kong, sending letters out of Hong Kong for delivery outside Hong Kong, and receiving letters brought into Hong Kong for delivery in Hong Kong or for transmission to some places outside Hong Kong. The Committee queried:

- why the Postmaster General could not enforce his rights in dealing with the overseas postal administration so as to protect the PO's revenue; and

- whether the Post Office Ordinance needed to the amended to enable the PO to take actions to address the problem.

73. The **Postmaster General** explained that:

- the PO's exclusive privilege under the Post Office Ordinance referred to "letters" only. The definition of "letters" might need to be studied in the review of postal services being conducted by the ESB. The question of amending the Post Office Ordinance would also be considered in the review; and

- under the existing legislation, the PO could not adopt arrangements similar to the overseas postal administration. As a result of the PO's strategy and the discussions between the PO and the overseas postal administration, the latter had now stopped making its own arrangements for sending mail items to Hong Kong. All its mail items were handled by the PO again.

74. The Committee considered that it would be more desirable for the PO to take proactive action to prevent the recurrence of similar incidents. As revealed in paragraph 4.5 of the Audit Report, the PO was worried that if other overseas postal administrations followed the practice of the overseas postal administration in question, the PO's profit from the international mail service would be further eroded. The Committee enquired how the Administration would tackle the problem.

75. The **Acting Secretary for Economic Services** said, at the public hearing and vide her letter of 10 May 2002 in ***Appendix 28***, that:

- in view of the development of postal services, the challenges brought about by technological advancement and the changing demand of the public, the ESB, in conjunction with the PO and the FB, was conducting a comprehensive review of postal policy and services;

- actually, the problem facing the PO was a common problem faced by other postal administrations in the world. Both the World Trade Organisation and the UPU were considering ways of addressing it. The Administration would take into account the developments in the international front and consider how to tackle the problem in the postal service review; and

- the review covered, inter alia, examination of the operation and financial position of the PO, demands and expectations of the general public and the business community of postal services, developments in the postal services sector both locally and overseas, Hong Kong's international obligations, and a wide spectrum of policy issues, such as staffing, legal provisions and the PO's status as a trading fund.

76. The Committee further asked about the details and effectiveness of the strategy adopted by the PO for dealing with the threats of overseas postal administration and overseas mailers bypassing the international mail system.

77. The **Postmaster General** advised, at the public hearing and in his letter of 15 May 2002, that:

- the PO's strategy was to:

  (a) further improve the quality of service for the delivery of inbound mail. This could help improve the PO's competitive advantage and keep the business in the postal stream; and

  (b) exercise discretion in rejecting overseas mail brought into Hong Kong and tendered for posting at the PO's counters. This was in accordance with the provisions in the Constitution of the UPU;

- he could not guarantee that the strategy could completely free Hong Kong from similar threats. However, it was the best approach to dealing with the problem at present. The PO would devise suitable strategies if the overseas postal blocs adopted other measures to bypass the international mail system in future; and

- it was more difficult to deter overseas mailers from bypassing the international mail system because the mail items brought into Hong Kong as cargo and then posted as local mail were not readily distinguishable from bona fide local mail in appearance.

78. In the light of the Postmaster General's reply, the Committee asked how the PO could refuse to handle the international mail items brought into Hong Kong as cargo if the PO could not distinguish such items from bona fide local mail.

79. The **Postmaster General** and the **Acting Secretary for Economic Services** replied that the PO's strategy would only work for those inward mail items that could be distinguished by the PO. The matter would be considered thoroughly in the review of postal policy and services.

80. Regarding the timetable for completing the review, the **Acting Secretary for Economic Services** informed the Committee, in her letter of 10 May 2002, that the Administration aimed to complete the review as soon as possible. Nevertheless, given the many issues involved and their complexity, not least developments on the international front in the context of multilateral trade and the UPU, over which the Administration had no control but which would have implications on the progress of the review, the Administration was unable to provide a definite timetable for the review at this point in time.

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

- consider that:

  (a) the Post Office's (PO's) mode of operation has been very inflexible in terms of the number and location of branch post offices, manpower provision, service hours and pricing structure, and this goes against commercial principles; and

  (b) this appears to be the root cause of the PO's being less competitive than private operators, and of one overseas postal administration's and some overseas mailers' being able to exploit the subsidised local postage rates and selectively give the PO only those mail items which are costly to deliver;

- express serious concern that:

  (a) with the exception of 1996-97 and 1997-98 when the PO had substantial windfall profits from philatelic products, the PO had not achieved the target return of 10.5% per annum on fixed assets in the past seven years; and

  (b) the PO has still not drawn up any plan that can help it achieve the target return in the foreseeable future;

Scope for improving the financial performance of new services

- urge the Postmaster General to expeditiously review the postshop service, the e-post service and the remittance service and set target dates for them to achieve a reasonable rate of return, taking into account the full cost of the services, and if this cannot be achieved, consider ceasing the provision of these three ancillary services;

Scope for reducing operating costs

- note that during the period January 2000 to December 2001, the performance of twice-delivery beats (in terms of percentage of locally posted letters delivered to addressees by the following working day) was only slightly better than that of once-delivery beats by 1.2%;

- express concern that during the period April to September 2001, 24% of the twice-delivery beats delivered not more than 50 mail items daily in the second delivery and 30% of the twice-delivery beats delivered not more than 5% of the daily mail items in the second delivery;

- acknowledge that the PO is conducting a comprehensive review of the existing twice-delivery beats so as to identify those delivery beats which can be converted to once-delivery beats, taking into account the number and percentage of mail items delivered in the second delivery, and the possible effects of the conversion on the service standard;

- urge the Postmaster General to conduct proper consultation, including with the Legislative Council, in the review of the delivery beats;

- express serious dismay that the estimated annual overtime (OT) allowance claimed by delivery postmen of all the 1,690 delivery beats which could not be justified by workload, would amount to $21.3 million at 2001-02 prices;

- urge the Postmaster General to review the PO's system of controlling and monitoring the OT work of delivery postmen to ensure that the guidelines in Civil Service Bureau Circular No. 18/2000 are fully complied with;

Need to eliminate cross-subsidisation among mail services

- note that although the PO implemented higher percentages of postage rate increase in June 1995 and September 1996 for those services which incurred

losses, the PO still has not been able to eliminate cross-subsidisation by those services which generate profits;

- express concern that the PO's aim in 1996 of achieving breakeven for the bulk bag service within three to four years has not materialised and the service to a few users continues to be heavily subsidised. In 2000-01, the operating loss of the service was $20.5 million, representing 65% of the PO's overall operating loss;

- recommend that the Postmaster General should, in conjunction with the Economic Services Bureau and the Finance Bureau:

  (a) continue taking action to reduce cross-subsidisation among the PO's different mail services, especially by improving the financial performance of those mail services which are currently incurring heavy losses; and

  (b) draw up a definite timetable to increase the postage rates for the bulk bag service so as to enable the service to achieve breakeven as soon as possible;

Need for comprehensive review of postal policy

- express concern that:

  (a) the PO, as a trading fund, has sustained continued operating loss since 1998-99;

  (b) many post offices occupy government premises at prime locations;

  (c) there are other successful private operators available in the market which can provide competitive local mail delivery service;

  (d) there is cross-subsidisation among different types of mail services;

  (e) electronic communication will increasingly replace traditional mail;

  (f) one overseas postal administration and some overseas mailers exploit the local postage rates and bypass the international mail system by bringing international mail into Hong Kong as cargo; and

(g) there has been a loss in the volume of the PO's local mail in business districts and densely populated residential areas due to the availability of local couriers and the fact that utility companies have their means for delivering their own bills;

- urge that in the comprehensive review of postal policy and services currently being conducted, the Postmaster General should, in conjunction with the Economic Services Bureau, critically examine the above challenges and find practical ways of meeting them; and

Follow-up actions

- wish to be kept informed of:

(a) the results of the PO's review of the postshop service, the e-post service and the remittance service;

(b) the progress and results of the PO's delivery beat review;

(c) the progress of the PO's review of the system of controlling and monitoring the OT work of delivery postmen; and

(d) the results of the comprehensive review of postal policy and services.

Chapter 5

Management of construction and demolition materials

Part I: Introduction

Construction and demolition (C&D) materials are a mixture of inert materials and wastes arising from construction and demolition activities. It is the Government's policy to maximise the use of inert C&D materials in public filling areas for reclamation purposes so as to conserve the valuable landfill space. In their Report No. 28 of June 1997, the Committee recommended that the Administration should take measures to identify more outlets to meet both the current and future public filling needs. Although the Government had increased the rate of reuse of C&D materials in public filling areas from 35% in 1994 to 83% in 2001, it assessed that the demand for public filling facilities would exceed the supply from mid-2002 onwards. Against this background, Audit carried out a further review on the management of C&D materials to see what improvements could be made.

2. The Committee held two public hearings on 9 and 17 May 2002 to take evidence on the issues examined in the Audit Report.

Part II: Evidence taken at the public hearing on 9 May 2002

Problems encountered in using public fill in the Penny's Bay Stage 1 Reclamation Contract (PBR1 Contract)

3. The Committee understood from paragraph 2.1 of the Audit Report that the success of the present C&D materials management strategy depended very much on the adequate provision of public filling areas. However, Audit revealed that the opportunity of using public fill had been lost in the Penny's Bay Reclamation project. According to paragraph 2.25, the Civil Engineering Department (CED) planned to use the Tseung Kwan O Contract (TKO Contract) to supply 3.6 million tonnes of sorted public fill for use in the PBR1 Contract from mid-2001 to mid-2002. The planned arrangement involved the formation of Area W30 in the TKO Contract site by 1 July 2001 so that the PBR1 Contractor could use it to sort and transport the public fill by sea. However, due to the collapse of the newly constructed seawall on 3 July 2001, the planned delivery of 3.6 million tonnes of public fill to the PBR1 Contract could not be made. The Committee further noted from paragraph 2.26 that in order not to delay the PBR1 Contract, the CED was left with no choice but to permit the importation of 3.6 million tonnes of marine sand to fill the PBR1 site.

4. Against the above background, the Committee enquired about the financial implications of the loss of opportunity to use the 3.6 million tonnes of public fill in the PBR1 Contract, in particular the costs relating to the use of marine sand and the stockpiling of the public fill.

5. **Dr LAU Ching-kwong, Director of Civil Engineering** and **Mr CHING Kam-cheong, Assistant Director (Civil)/Port**, replied that:

- having considered the feasibility of using more public fill in the Penny's Bay Stage 2 Reclamation (PBR2) to make up for the lost capacity in the PBR1 Contract, the CED had changed the design of the PBR2 to increase the public fill intake by 3.6 million tonnes. The public fill in question being stockpiled in TKO would be sorted and transported to the PBR2 site. If the public fill had been used in the PBR1 Contract, the same procedure would have been adopted. Hence the CED would not incur additional cost for stockpiling and sorting the public fill for use in the PBR2. The public fill would not have to be disposed of at landfills;

- regarding the marine sand to be used in the PBR1 Contract, the CED had sourced it from Neilingding Island in Zhuhai of the Mainland. It would be sprayed on the PBR1 site. The total cost for using marine sand in the PBR1 Contract was $39.3 million compared to the total cost of $83.6 million for using 3.6 million tonnes of public fill according to the original design of the PBR1. In other words, $44.3 million would be saved; and

- although it would have been more costly to use public fill according to the original design of the PBR1 than to use marine sand, it was considered worthwhile because of the need to conserve the scarce landfill capacity.

6. To enhance their understanding of the planned usage vis-à-vis the actual usage in respect of marine sand and public fill in the PBR1 and the PBR2, the Committee requested for:

- information on the amounts of marine sand and public fill for use in the PBR1 according to the original design and the total amount of marine sand that the contractor had been eventually allowed to use to fill the PBR1 site; and

- a comparison between the original design and the revised design regarding the amounts of marine sand and public fill for use in the PBR2.

Management of construction and demolition materials

7. In response, the **Director of Civil Engineering** provided the following information vide his letter of 15 May 2002, in ***Appendix 29***:

PBR1

Materials	**Planned usage**	**Actual usage**
Marine sand	108 million tonnes	124 million tonnes*
Public fill	3.6 million tonnes	Nil

* Owing to unforeseen seabed conditions, during the course of reclamation the contractor had deepened the dredged level in order to arrive at an acceptable firm ground. Consequently, more sand had been used both in replacing the planned public fill and in forming the reclamation.

PBR2

Materials	**Planned usage**	**Revised planned usage**
Marine sand	7.2 million tonnes	7.2 million tonnes
Public fill	19.8 million tonnes	23.4 million tonnes

8. In response to the Committee's question about the details and financial implications of the design changes in the PBR2, the **Director of Civil Engineering** stated in the same letter that the changes in the design would increase the public fill intake by 3.6 million tonnes. The changes included advancing the filling of a temporary channel and changing the top two metres of the reclamation area to selected public fill. The total estimated cost of the design changes was about $52 million.

9. The Committee understood that the 3.6 million tonnes of public fill was being stockpiled in TKO Area 137 and wondered whether the site concerned could have been used for other revenue-generating purposes if it was not used for stockpiling the public fill. The **Assistant Director (Civil)/Port** replied that reclamation works were in progress at the site, which currently was only used for temporary storage. The CED chose this site due to the availability of a stockpiling and sorting facility there.

10. In the light of the above, the Committee pointed out that the Administration might incur an opportunity cost for stockpiling the 3.6 million tonnes of public fill at the site. As such, they asked the Director of Lands:

- whether the CED had been allowed to use the site under a land grant and, if so, what the duration of the grant was;

- what the use(s) of the land would be if the site could be resumed before the expiry of the grant; and

- about the opportunity cost of the land for stockpiling the public fill.

11. In his letter of 15 May 2002, in ***Appendix 30***, the **Director of Lands** advised the Committee that:

- the CED was currently occupying Area 137 at TKO as a works site for the purposes of reclamation and the construction of sea walls. An application for part of the area, i.e. about 10 hectares, to be used as a stockpiling and sorting facility had been received by the District Lands Office and a land allocation, not a land grant, to the Director of Civil Engineering was being processed;

- the long-term use of Area 137 was for "Deep Water Front Industry" as designated on the relevant Outline Zoning Plan. However, it was understood that the Planning Department (Plan D) was reviewing this designation. Apart from the originally proposed long-term use, the site characteristics lent themselves to a short-term use such as the barging and storage of sand and aggregates; and

- the "opportunity cost" of the site proposed for stockpiling and sorting fill might be assumed to relate to the possible short-term use mentioned in the inset above. Having regard to recent comparable rental evidence for similar sites and adjusting for the large site area, it was considered that the rent which might be achieved would be in the region of $4 million to $5 million per annum. However, this should be regarded as a preliminary estimate only.

12. Although the 3.6 million tonnes was only being stockpiled temporarily in TKO Area 137, the Committee noted from paragraph 2.27 of the Audit Report that if a fill bank was eventually used to stockpile 3.6 million tonnes of surplus C&D materials, there would be additional cost implications of $100 million, i.e. $28 per tonne x 3.6 million tonnes. According to Note 5 of the Audit Report, depending on the location and mode of operation of the fill bank, the CED estimated that it would cost at least $28 to manage one tonne of stockpiled public fill. As such, the Committee asked about the breakdown of the cost of $28 per tonne and whether there would be other types of costs involved in handling stockpiled public fill.

13. In his letter of 15 May 2002, in ***Appendix 29***, the **Director of Civil Engineering** provided the information as follows:

Activities	**Unit cost**
Capital cost of setting up stockpiling area	$ 1.3/tonne
Environmental mitigation measures	$ 1.3/tonne
Stockpiling of public fill delivered	$ 9.5/tonne
Removal of public fill (from stockpile to barging point on site)	$ 15.9/tonne
Total =	**$** 28.0/tonne

14. Noting the circumstances surrounding the use of marine sand instead of the 3.6 million tonnes of public fill in the PBR1, the Committee questioned how the Administration could ensure the implementation of the policy of maximising public fill in government projects.

15. **Mr LEE Shing-see, Secretary for Works**[1], explained that the Administration was responsible for maximising the use of C&D materials for reclamation projects. The policy was very clear. However, consideration had to be given to such factors as fill requirements, project requirements and the construction programme in determining the public filling capacity of a works project. The government department concerned needed to discuss with the Public Fill Committee in coordinating the use of C&D materials in the light of the actual usage and project considerations.

16. In response to the Committee's enquiry about the implementation of the policy concerning the use of C&D materials, **Mrs Lily YAM KWAN Pui-ying, Secretary for the Environment and Food**[2], said that:

- in view of its policy responsibility for the management of C&D materials, the Environment and Food Bureau (EFB) did hope that the use of such materials could be maximised in every works project regardless of whether it was for reclamation or other purposes;

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1 With the implementation of the Accountability System for Principal Officials, the major statutory functions exercisable by the Secretary for Works have been transferred to the new Secretary for the Environment, Transport and Works with effect from 1 July 2002.

2 With the implementation of the Accountability System for Principal Officials, the statutory functions relating to the environment exercisable by the Secretary for the Environment and Food have been transferred to the new Secretary for the Environment, Transport and Works with effect from 1 July 2002.

- as pointed out by the Secretary for Works, the usage of such materials depended on the requirements of the project. As the policy bureau in this regard, the EFB had also encountered difficulties. First, only 25% by weight at most of the C&D materials could be recycled for use. In view of the composition of the C&D materials generated in the past few years, only about 60% could be used for reclamation purposes. Second, the number of reclamation projects had decreased in recent years due to environmental concerns, such as the protection of the harbour;

- the generation of C&D materials did not coincide with the availability of new reclamation projects. As there would be a serious shortage of public filling areas from 2002 to 2005, the Administration planned to establish temporary fill banks; and

- the EFB, the CED and the Environmental Protection Department (EPD) frequently held liaison meetings to discuss measures to maximise the use of public fill. Since the end of May 2002, the liaison meetings would be chaired by a Deputy Secretary for the Environment and Food so as to coordinate the work more effectively.

Need to implement the landfill charging scheme

17. Audit observed that the Legislative Council (LegCo) had passed a resolution in June 1995 to amend the Waste Disposal (Charges for Waste Disposal) Regulation to allow the private-sector waste collectors to pay the landfill charges on either a per-tonne or a per-vehicle-load basis. Despite the amendment, the private-sector waste collectors blockaded the landfill sites in protest. The Administration subsequently agreed that the implementation of the charging scheme would be deferred until there was agreement on the arrangements for charging. The Committee understood that the landfill charging scheme had still not been implemented since the private-sector waste collectors continued to raise strong objections. As stated in paragraph 3.11 of the Audit Report, the waste collectors were concerned that they would have to pay the landfill charges in advance for some of the waste producers. Difficulties of collecting the charges would cause bad debt problems. Moreover, large transportation companies would take the opportunity to drive the small ones out of business. They also considered that under the existing poor economic conditions, the proposed charge of $125 per tonne was too high.

18. Against this background and noting that the landfills would be depleted by 2015 according to the projection in the 1998 Waste Reduction Framework Plan, the Committee queried the reasons for the slow progress in implementing the landfill charging scheme.

19. The **Secretary for the Environment and Food** explained that:

- the proposed charge of $125 per tonne was the capital and recurrent cost of landfill. Although the Administration had estimated that the full economic cost of landfill was $215 per tonne, which included the opportunity cost of the land set aside for landfill purposes, the EFB had proposed to charge $125 per tonne for the purpose of meeting the cost for handling C&D materials;

- in response to Audit's recommendation in paragraph 3.16(b), the EFB had provided in the consultation exercise the costing information on the proposed charge of $125 per tonne to the trades concerned so as to facilitate their consideration of the way forward;

- the Administration submitted to the LegCo Panel on Environmental Affairs in February 2002 a paper on the revised arrangement for landfill charging. At the request of the Panel, the Administration recently held further discussions with the relevant trades. However, they maintained their reasons for objection; and

- the Administration would submit further information on the proposed landfill charging scheme for discussion at the Panel meeting on 27 May 2002. If the Panel supported and the community agreed with the scheme, the Administration would try again to elicit acceptance by the relevant trades, such as the transportation industry and the construction industry.

20. With reference to the Administration's estimation of the full economic cost of landfill, i.e. $215 per tonne, the Committee enquired about the basis of the estimation. The **Director of Civil Engineering** provided the following information in his letter of 15 May 2002, in ***Appendix 30***:

Capital cost of landfill	= $56/tonne
Recurrent cost of landfill	= $69/tonne
Opportunity cost for land	= $90/tonne
Total	= $215/tonne

21. Referring to the Administration's undertaking in 1995 not to implement landfill charging before reaching an agreement with the waste collection trade, the Committee asked whether the Administration must seek the agreement of the private-sector waste collectors before implementing any landfill charging scheme in future.

22. The **Secretary for the Environment and Food** said that:

- she still hoped that the trades concerned would support further actions by the Administration in this matter. It was clearly stated in the Administration's undertaking in 1995 that it would defer gazetting the then landfill charging proposal until there was agreement on the arrangements for charging; and

- the Administration had revised the landfill charging proposal in the light of the demands and concerns of the relevant trades. Under the revised charging scheme, about 70% of the landfill charges would be paid directly by the major waste producers.

23. The Committee further asked whether:

- the proposed charge of $125 per tonne of public fill was reasonable; and

- the landfill charging scheme would be confined to future works contracts.

24. The **Secretary for the Environment and Food** responded that:

- the EPD had contracted out the management of landfills, and the charge was determined subsequent to the selection of the contractor through the normal tendering procedures;

- the Administration had discussed with the construction industry and made it clear that the scheme would not be applicable to works contracts they had entered into before its implementation; and

- she hoped that the Works Bureau (WB) would issue a circular within the next few months requiring the use of C&D materials in all government works projects.

25. In the light of the above reply, the Committee asked whether the WB would issue the circular as suggested by the Secretary for the Environment and Food. In his letter of 16 May 2002, in ***Appendix 31***, the **Secretary for Works** informed the Committee that the WB had taken the lead to promote the use of recycled C&D materials in works projects, and had issued a circular on 27 March 2002 to facilitate works departments in using recycled aggregates in certain technically less demanding works items. In addition, the WB would set up a Working Group shortly to monitor and promote wider use of recycled aggregates in public works projects.

Part III: Evidence taken at the public hearing on 17 May 2002

Problems encountered in using public fill in the PBR1 Contract

26. The Director of Civil Engineering's letter of 15 May 2002, in ***Appendix 29***, revealed that the changes in the design of the PBR2 would increase the public fill intake by 3.6 million tonnes and that the total estimated cost of the design changes was about $52 million. The Committee asked about the basis of the estimation of the $52 million.

27. The **Assistant Director (Civil)/Port** explained that:

- the design changes included advancing the filling of a temporary channel and changing the top two metres of the reclamation area to selected public fill; and

- in the case of using the public fill in the PBR1 Contract according to the original design, the cost was $83.6 million. In contrast, the cost amounted to $91.3 million, comprising $39.3 million for the use of marine sand in the PBR1 and $52 million for the changes in the design of the PBR2. Hence the cost differential was $7.7 million.

28. The Committee further enquired whether:

- the total estimated cost of $52 million for the design changes included the transportation and sorting costs of the public fill for use in the PBR2; and

- the cost differential of 7.7 million was an additional cost to be incurred.

29. The **Assistant Director (Civil)/Port** said that:

- the total estimated cost of the design changes did include the transportation and sorting costs of the public fill; and

- although an additional cost of $7.7 million would be incurred, the filling of the temporary channel would create an additional piece of land of close to one hectare.

30. The Committee further requested to have the breakdowns of:

- the total estimated cost of $83.6 million for using public fill in the PBR1; and

- the total estimated cost of $52 million arising from the changes in the design of the PBR2.

31. In response, the **Director of Civil Engineering** provided the following information vide his letter of 23 May 2002, in ***Appendix 32***:

Original design	**Cost**	**Revised design and advancement of works**	**Cost**
PBR1		**PBR1**	
No Purchase of sand	Nil	Purchase of sand	$39.3 million
		PBR2	
Transportation of public fill from stockpile to sorting facility	$21 million	Transportation of public fill from stockpile to sorting facility	$18.9 million*****
Sorting of public fill	$16.3 million	Sorting of public fill	$14.2 million*****
Transportation from sorting facility to Penny's Bay	$20.8 million	Transportation from sorting facility to Penny's Bay	$18.9 million*****
Sand drainage layer	$25.5 million	No sand drainage layer	Nil
		Sub-total	$52 million
Total	$83.6 million	Total	$91.3 million
Difference = $91.3 million - $83.6 million = $7.7 million			

***** The unit rates in the revised design and advancement of works were lower than those in the original design due to the economy of scale derived from handling a total of 23.4 million tonnes of public fill in the former compared to only 3.6 million tonnes in the latter.

32. The Committee pointed out that the CED had not included in the additional cost of $7.7 million the opportunity cost of the site in TKO Area 137 proposed for stockpiling and sorting the public fill. As stated in the Director of Lands' letter of 15 May 2002, in ***Appendix 30***, the rent of the site which might be achieved would be in the region of

$4 million to $5 million per annum. The Committee asked about the duration of stockpiling the 3.6 million tonnes of public fill in the site.

33. The **Director of Civil Engineering** responded that:

- works were currently in progress in the said site, and therefore could not be leased; and

- subject to the funding approval by the Finance Committee of the LegCo, the CED would invite tenders for the PBR2 Contract in the end of 2002. If the contractor could commence the project in 2003, the sorted public fill would be transported to the PBR2 site in the same year. In other words, the public fill would be stockpiled for about two years by that time.

34. It appeared to the Committee that the Director of Civil Engineering had reservations about the assessment of the land opportunity cost for stockpiling in TKO Area 137 for about two years the 3.6 million tonnes of public fill rescheduled for use in the PBR2, the Committee invited the Secretary for the Treasury[3] to comment on the issue.

35. In her letter of 25 May 2002, in ***Appendix 33***, the **Secretary for the Treasury** advised that:

- TKO Area 137 was planned to be used as a temporary fill bank. It currently served as a works area for the CED Contract No. CV/2000/09 – Infrastructure for Penny's Bay Development Contract 1, and a works site for the Territory Development Department Contract No. CV/97/01 – TKO Area 137 Reclamation Stage 2;

- the works areas and works sites under the two contracts were planned to be progressively handed over, between October 2002 and mid-2004, to the contractor for a separate contract to enable TKO Area 137 to be used as a temporary fill bank. Tenders for the fill bank contract would be invited in the summer of 2002;

[3] With the implementation of the Accountability System for Principal Officials, the major statutory functions exercisable by the Secretary for the Treasury have been transferred to the new Secretary for Financial Services and the Treasury with effect from 1 July 2002.

- the area currently stockpiling the 3.6 million tonnes of public fill in question, which was about 30 hectares, would be handed over to the fill bank contractor as soon as the fill bank contract was awarded, that is, around October 2002. Thus, notwithstanding the CED's latest plan to accommodate the public fill in the PBR2 works, the handover dates for the fill bank contract were not affected;

- the Director of Civil Engineering believed that as long as the entire TKO Area 137 was being occupied continuously in the next few years for stockpiling, sorting and transporting public fill as a works area for reclamation or the fill bank, there was nowhere within the site which could be leased for revenue generation in reality;

- the Director of Lands had clarified that in assessing the notional land opportunity cost of using the site for stockpiling, sorting and so on, he had assumed that the barging and storage of sand and aggregates would be a reasonable alternative use. Upon the Director of Civil Engineering's clarification that the site concerned covered about 30 hectares rather than 10 hectares, the Director of Lands further advised that the notional rent which might be achieved would be in the region of $6 million to $7 million, rather than $4 million to $5 million, per annum; and

- the Director of Lands agreed with the Director of Civil Engineering that the possibility of securing a tenant for this very large, remote site was uncertain and the "notional" land opportunity cost must be regarded as indicative only. To claim categorically that the Government would forgo the above rental figure by using the land for stockpiling and sorting would be a somewhat specious argument.

36. On the estimation of the opportunity cost of the land set aside for landfill purposes, the Committee noted from the Director of Civil Engineering's letter of 15 May 2002, in ***Appendix 29***, that the full economic cost of landfill, i.e. $215 per tonne, included an opportunity cost for land of $90 per tonne. The Committee asked how the Administration arrived at $90 per tonne, given that it could not rent out the land set aside for such purposes.

37. **Mr Robert LAW, Director of Environmental Protection**, explained that the EPD had arrived at the notional opportunity cost for the land with the assistance of the Finance Bureau (FB). The Administration had adopted the basis for the estimation that the land was agricultural in nature and it would have to pay to buy the land at its average price.

Hence the opportunity cost did not concern the alternative use of the land. Instead, it was the notional price of the land.

38. **Ms Annie CHOI, Principal Assistant Secretary for the Environment and Food**, added that the 3.6 million tonnes of public fill had never been disposed of at landfills. Rather, it had been stockpiling at a works site at TKO Area 137. Thus the opportunity cost of the land for landfill purposes did not apply to the case of stockpiling the 3.6 million tonnes of public fill.

39. On the issue of changing the design of the PBR2, the Committee noted the Assistant Director (Civil)/Port's earlier statement that although an additional cost of $7.7 million would be incurred, the filling of the temporary channel would create an additional piece of land of close to one hectare. They questioned:

- whether there was a genuine need to fill the temporary channel in the PBR2 or it was merely a means to remedy the loss of opportunity to use the 3.6 million tonnes of public fill in the PBR1 Contract; and

- what the proposed use of the land was.

40. The **Director of Civil Engineering** and the **Assistant Director (Civil)/Port** explained that:

- there had been a plan to construct an access road in the area. Although the schedule for the construction had not yet been drawn up at this stage, the project would include the filling of the temporary channel. Hence, the implementation of the filling works did not arise from the need to use the 3.6 million tonnes of public fill; and

- according to the original plan, the temporary channel would be filled by granular fill. The CED had now revised the plan to use public fill. The temporary channel had to be filled in any case before the site could be made available for development.

41. Regarding the proposed use of the additional piece of land, the **Director of Civil Engineering** stated in his letter of 27 May 2002, in ***Appendix 34***, that in accordance with the draft North-east Lantau Outline Zoning Plan, the land would be used for the construction of an access road leading to the Hong Kong Theme Park Phase 2.

42. In response to the Committee's further enquiry about the circumstances surrounding the design changes in the PBR2, the **Director of Civil Engineering** said in his letter of 23 May 2002, in ***Appendix 32***, that:

- the consultant had submitted the Final Inception Report for the reclamation project in December 2001. The design concept for the reclamation was contained in the report. The CED studied the report in early 2002;

- meanwhile, the CED received the first draft of the Audit Report in January 2002. The Audit Report recommended, among other things, that the CED should find means to increase the public fill intake in the PBR2 to make up for the loss in the PBR1;

- the CED asked the consultant to review the design of the reclamation to identify more opportunities to use public fill. In mid-April 2002, having satisfied with the engineering feasibility of a revised design to replace the top two metres of general fill by public fill and a proposal to advance the works of filling a temporary drainage channel, the CED decided to adopt both changes; and

- regarding the advancement of the works, the temporary drainage channel had to be filled in any case before the site could be made available for development. The works were also within the gazette limit of the reclamation works for the Theme Park development as shown in the gazette plan.

43. At the Committee's request, the Director of Civil Engineering provided the documents relating to the design changes of the PBR2 for the examination by Audit regarding the justifications for such changes. Having had sight of the necessary documentation, the **Director of Audit** stated in his letter of 3 June 2002, in ***Appendix 35***, that:

- regarding the advance filling of the temporary open channel, according to the draft North-east Lantau Outline Zoning Plan, an access road was planned to be constructed alongside the northern edge of the Stage 2 Reclamation. As pointed out by the consultant in November 2001, the temporary open channel in the original design of the Stage 2 Reclamation would eventually be filled under future infrastructure works. In Audit's view, advancing the filling of the temporary open channel had not deviated from the intention of the draft North-east Lantau Outline Zoning Plan. Moreover, the filling of the temporary open channel with public fill was consistent with the requirement

of the Environmental Impact Assessment (EIA) Report of using a total of 23.4 million tonnes of public fill in the PBR 1 and 2;

- as regards the replacement of the top two-metre layer of granular fill by public fill, according to the consultant, it was an additional measure for the Stage 2 Reclamation to use up to 23.4 million tonnes of public fill as required under the EIA Report. Moreover, the consultant considered it technically beneficial to use public fill in lieu of well-graded granular fill in the top two-metre layer. In May 2002, the CED indicated that it shared the consultant's view. The CED considered it prudent to adopt the design change for the top 2-metre layer which could make use of about 2.2 million tonnes of public fill, i.e. about 61% of the 3.6 million tonnes not used in the Stage 1 Reclamation. While the top two-metre layer would have to be removed after the settlement period in late 2008, this design change could help address the immediate shortage of public filling capacity; and

- in Audit's view, such design changes had been made in order to make beneficial use of the public fill originally intended to be placed in the PBR1. In doing so, the CED had taken into account both the EIA Report's requirement and the current problem of shortage of public filling capacity. However, as the top two-metre layer of public fill would have to be removed in late 2008, it was necessary for the CED to work out a definite disposal plan to ensure its beneficial use thereafter.

Need to follow prudent project management principles

44. According to paragraph 2.13 (a) of the Audit Report, Area W30 in TKO Area 137 public filling area, which was managed under the TKO Contract, would be handed over to the PBR1 Contractor as his works area on or before 1 July 2001. Audit observed that the CED had awarded the TKO Contract in October 1999. This contract had no provision for completing Area W30 by 1 July 2001. However, in the PBR1 Contract awarded in April 2000, the CED had committed the Government to making Area W30 available for the use of the PBR1 Contractor by 1 July 2001. Paragraphs 2.16 and 2.17 revealed that there was subsequent slippage in the progress of the TKO Contract. In order to meet the PBR1 Contract's requirement, the CED sought the Secretary for the Treasury's approval in December 2000 for a variation to the TKO Contract. In February 2001, the CED entered into a supplementary agreement with the TKO Contractor. The Committee noted from paragraph 2.21 that the Secretary for the Treasury had stated that it was not prudent to commit the TKO Contractor to delivering something for a third party, i.e. the PBR1 Contractor, without first securing the TKO Contractor's consent.

45. Against the above background, the Committee questioned whether there was project mismanagement on the part of the CED in the case of the TKO Contract. The **Director of Civil Engineering** explained that:

- after the TKO Contract works had commenced, the contractor submitted an initial construction programme to the CED. The programme indicated that the contractor would be able to complete Area W30 by 1 July 2001. The progress of the TKO Contract was still satisfactory when the CED awarded the PBR1 Contract in April 2001; and

- although the planned progress of the works was not contractually binding on the contractor, the CED did not consider it necessary to enter into a supplementary agreement and incur additional cost, having regard to the satisfactory progress of the TKO Contract. Moreover, the staff in the works site had compared the actual progress with the planned progress every month. Nevertheless, when the CED found out in September 2000 that there was slippage in the progress, it immediately took up the matter with the contractor.

46. In the light of the reply of the Director of Civil Engineering, the Committee asked whether the FB had been aware of the CED's judgement on the progress of the TKO Contract as the CED did not state this in its response in paragraph 2.20 of the Audit Report. **Miss Elizabeth TSE, Deputy Secretary for the Treasury**, said that the CED had explained to the FB its judgement on the progress of the TKO Contract. The CED did not expect that slippage would occur at a later stage.

47. The Committee further asked:

- whether the TKO Contractor's prior agreement to complete Area W30 by 1 July 2001 should be made a contractual requirement in the first place, or the CED's judgement on the progress of the TKO Contract would suffice in this case; and

- about the estimated cost for including 1 July 2001 as a milestone date in the TKO Contract.

48. The **Director of Civil Engineering** replied that with hindsight, he considered that the milestone date of 1 July 2001 should have been included in the TKO Contract. At that time, the CED had not estimated the cost in this regard.

Management of construction and demolition materials

49. To ascertain whether the CED was aware of the actual progress of the TKO Contract, the Committee enquired about the work that it had undertaken between April and September 2000 in respect of the supervision of the contract works. The **Director of Civil Engineering** informed the Committee in his letter of 24 May 2002, in ***Appendix 36***, that between April and September 2000, the progress of the works was unsatisfactory. The CED had repeatedly reminded the TKO Contractor of the slow progress and requested the contractor to take steps to catch up with the programme through regular site meetings and official correspondence. The contractor's slow progress was also recorded in the contractor's performance reports in the quarters ending May 2000 and August 2000.

50. In response to the Committee's enquiry about the financial implications of the supplementary agreement with the TKO Contractor, the **Director of Civil Engineering** stated in the same letter that the original estimated cost of the agreement was $28.16 million. Of this, a payment of 7.82 million had been made to the contractor for the part of work done for the early completion of Area W30.

51. Turning to the collapse of the vertical seawall in Area W30 of the TKO Contract, the Committee noted from paragraph 2.23 of the Audit Report that in the afternoon of 3 July 2001, a portion of the newly reclaimed land within Area W30 behind the vertical seawall sank below the sea level and a portion of the vertical seawall collapsed. After the incident, the reclamation works under the supplementary agreement with the TKO Contractor were suspended. Site investigation works were required for identifying the cause of the incident and for detailed design of the remedial works. The Committee enquired about the present position of the matter.

52. The **Director of Civil Engineering** said that the CED had commissioned Professor C F LEE of the University of Hong Kong to conduct a study on the process of and the factors leading to the collapse of the vertical seawall. The investigation report would be completed in June 2002.

53. In response to the Committee's recent request for a copy for the investigation report, the **Director of Civil Engineering** informed the Committee in his letter of 21 June 2002, in ***Appendix 37***, that the report was still under preparation.

Management of construction and demolition materials

Need to promote wider use of recycled C&D materials

54. According to paragraph 4.10 of the Audit Report, based on the CED's study, about 25% of C&D materials generated were hard materials with potential for recycling. The recycling and reuse of C&D materials would reduce the pressure on pubic filling areas and landfills. Paragraph 4.11 revealed that from mid-2002, the temporary recycling plant in Tuen Mun Area 38 reclamation was expected to produce about 354,000 tonnes of recycled aggregates annually for use of government projects. However, despite repeated appeals from the WB and the CED, the estimated total demand, i.e. 104,000 tonnes a year, for recycled aggregates by the works departments would only consume about one third of the planned output of this recycling plant. There was an urgent need for the WB and the CED to step up their efforts to promote the wider use of recycled C&D materials in government projects so as to enable all the recycled aggregates produced to be put into beneficial use.

55. The Committee fully agreed with Audit's observation that it was important for the Government to set a good example for the construction industry to follow, particularly bearing in mind that the Government intended to set up another recycling plant in Kai Tak in early 2003. The Committee asked:

- about the planned output of the temporary recycling plant in Kai Tak; and

- whether there would be sufficient demand for the recycled aggregates produced by this plant.

56. **Mr CHAN Chi-yan, Chief Engineer/Port Works**, replied that:

- in view of the planned output of the recycling plant in Tuen Mun Area 38 reclamation, the various works departments had identified as many projects as possible in which recycled aggregates could be used. The number of suitable projects had now increased from 15 to 22. As a result, the estimated total demand for recycled aggregates had increased to 900,000 tonnes for the next five years; and

- the temporary recycling plant in Kai Tak was expected to produce 700,000 tonnes of recycled aggregates annually for use of government projects. In order to include the demand of the Housing Department (HD) in the total demand for recycled aggregates by government departments, discussions with the HD were underway, with a view to identifying the works items for which recycled aggregates could be used. If the HD did not

support the use of recycled aggregates in its projects, the CED could postpone the commissioning of this plant to a later date.

57. The Committee further enquired:

- about the estimated total demand for recycled aggregates by the HD; and

- what the total number of projects would be if all government departments were required to use recycled aggregates in their projects.

58. The **Chief Engineer/Port Works** said that the HD should be able to consume 700,000 tonnes to 800,000 tonnes annually. However, this depended on whether the HD would amend the specifications for its projects. As the HD needed to take into consideration the responsibility for the strength of the aggregates to be provided by the Government, it would undertake a study on this issue. In addition, when the recycling plant at Tuen Mun Area 38 reclamation commenced operation, tests would be conducted regarding the use of recycled aggregates for higher strength concrete.

59. In response to the Committee's view that the WB should take the lead to promote the wider use of recycled aggregates in government projects, **Mr CHAN Wing-sang, Deputy Secretary for Works (Works Policy)**, informed the Committee that:

- as stated in paragraphs 4.5 and 4.6 of the Audit Report, the WB issued two Works Bureau Technical Circulars (WBTCs) in 2001, which promulgated amendments to the General Specification for Civil Engineering Works, allowing the use of recycled C&D materials;

- the WB issued another circular in late March 2002, which promulgated the particular specifications to facilitate the use of recycled aggregates in concrete production, and construction of road sub-base in Public Works Programme (PWP) projects;

- if the operation of the recycling plant in Tuen Mun was satisfactory, the WB would impose the requirement in the near future that recycled aggregates should be used in all PWP projects;

- the WB would set up a task force to monitor and promote wider use of recycled aggregates among the works departments. It hoped that these

departments could take the lead in this regard so as to set an example for the HD or private developers to follow; and

- the number of new government projects was estimated to be 70 to 80 annually. Due to the need to observe the original General Specification in the contracts of old projects, the use of recycled aggregates was not allowed in these projects.

60. **Mr WAI Chi-sing, Principal Assistant Secretary for Works (Works Policy and Safety)**, supplemented that the works departments would be required to use recycled aggregates in half of their projects commencing in the coming six to nine months. The number of such projects was in the region of 40 to 50, which would consume more than 300,000 tonnes of recycled aggregates, that is, the equivalent of the planned supply of the recycling plant in Tuen Mun.

61. On the Committee's question on whether the Government would encounter difficulties in promoting the use of recycled aggregates in private works, the **Deputy Secretary for Works (Works Policy)** and the **Principal Assistant Secretary for the Environment and Food** responded that:

- private works were outside the purview of the WB. The EFB had the policy responsibility for the management of C&D materials. Private works were undertaken in accordance with the regulations promulgated by the Buildings Department and the EFB; and

- the Administration would first require the use of recycled aggregates in government works, including the civil engineering works of the HD. The Kowloon-Canton Railway Corporation and the MTR Corporation Limited would also use such aggregates in their works. Besides, the EFB, in conjunction with the Planning and Lands Bureau, were conducting a study on the use of recycled aggregates in private works and the need to introduce legislative amendments.

62. Regarding the use of recycled aggregates in public housing projects, the Committee enquired:

- about the forum at which the issue was under discussion and when the discussion was expected to end;

- about the action plan, if any, for implementing the initiative; and

- when the Administration would report the matter to the LegCo.

63. The **Secretary for the Environment and Food** informed the Committee in her letter of 1 June 2002, in ***Appendix 38***, that:

- both the EFB and the HD were members of the Waste Reduction Task Force for the Construction Industry, which was a subcommittee of the Waste Reduction Committee and was tasked to coordinate waste reduction actions concerning the construction sector. The issue of recycled aggregates was therefore an important subject closely followed by the Task Force;

- although the HD did not come under the purview of the WB, it did participate in the WB's Standing Committee on Concrete Technology, which was an inter-departmental committee within the Government to examine technical issues relating to, among other things, the use of recycled aggregates in concrete. This arrangement would ensure that the HD was kept abreast of the relevant performance tests, as well as measures adopted by the WB and other works departments in this regard;

- since April 2001, the HD had been amending its specifications to allow the use of recycled aggregates in its earthworks, drainage and road works, as well as in both structural concrete and concrete for minor structures. An implementation plan on the use of recycled aggregates was being prepared and would be completed by July 2002. In preparing the plan, the HD would take into consideration the location of the project sites and the allowable grades of concrete;

- the HD had also participated in the trial use of recycled aggregates in paving blocks. Depending on the outcome of the trial which would be available in mid-2003, the HD would revise its specifications to use recycled aggregates for this purpose; and

- the EFB would continue to report to the LegCo Panel on Environmental Affairs issues relating to the management of C&D materials, including the use of recycled aggregates.

Management of construction and demolition materials

Need to tighten the control over the disposal of C&D materials

64. Paragraph 6.9 of the Audit Report revealed that in March 2001, the Plan D had received a complaint from the public that there was illegal filling of two fish ponds in Tin Shui Wai inside the Wetland Conservation Area. As this was in contravention of the Town Planning Ordinance (Cap. 131), the Plan D issued a Stop Notice in April 2001, requiring the pond owner to stop the unauthorised filling activities and remove the earth already dumped into the ponds. According to paragraph 6.10, the Plan D had requested the Territory Development Department (TDD) to further look into the complaint. After investigation, the TDD found that the materials used for filling the fish ponds had come from the Yuen Long Contract. As stated in paragraph 6.7, the contract was awarded by the TDD for the construction of roads, drains and a constructed wetland in Tin Shui Wai, and the contract works were designed and supervised by a consulting engineer appointed by the TDD. The Committee also noted from paragraph 6.10 that although the consulting engineer had immediately requested the contractor to cease transporting C&D materials to the ponds, about 60,000 cubic metres of inert C&D materials had already been disposed of at the ponds.

65. The Committee asked:

- whether the Administration had stepped up actions to prevent the improper disposal of C&D materials; and

- how far the consulting engineer should be held responsible for the illegal filling of the fish ponds.

66. **Mr WONG Hung-kin, Director of Territory Development**, responded that:

- the disposal of the C&D materials from the Yuen Long Contract by the contractor at the fish ponds was definitely improper. The earth dumped into the ponds had been removed. The Plan D had prosecuted the pond owners concerned for the offence;

- the TDD admitted that the consulting engineer had not specified designated public filling facilities and landfills in the tender document. The reason was due to his under-estimation of the quantity of C&D materials from the contract works; and

- after the incident, the TDD had issued warnings to the contractor and the consulting engineer and reflected the consulting engineering's performance in

his performance report. The TDD had stepped up its efforts in monitoring other contract works regarding the disposal of C&D materials.

67. In the light of the reply of the Director of Territory Development, the Committee enquired about the maximum penalty for illegal filling activities and the outcome of the prosecution of the pond owners concerned. The **Director of Planning** informed the Committee in his letter of 23 May 2002, in ***Appendix 39***, that:

- the landowners of the ponds concerned had been prosecuted under section 23(6) of the Town Planning Ordinance for failing to comply with a notice served under section 23(2) of the Ordinance. The maximum fine for the offence was $500,000 on a first conviction and $1,000,000 on each of second and subsequent convictions; and in addition, a daily fine up to $50,000 after the specified date in the notice for the first conviction; and that up to $100,000 for a second or subsequent conviction; and

- the case had been heard by the Shatin Magistracy in December 2001. The two landowners concerned pleaded guilty to the charge and were fined a total of $20,000. The ponds had subsequently been reinstated.

68. Referring to the issuance of warnings to the contractor and the consulting engineer, the Committee enquired about the impact on them. The **Director of Territory Development** said that:

- if the performance of a contractor had been recorded as unsatisfactory, it would be reflected in his score in the points system for tender evaluation. Unsatisfactory performance in such aspects as environmental protection, safety and progress of works would result in a lower score; and

- as far as the consulting engineer was concerned, the TDD had recently given him an adverse report for his performance due to the illegal filling incident and unsatisfactory performance in other facets of his work. The consulting engineer was now well aware of the need to vigorously improve his performance in various facets of his work.

69. In view of the Director of Territory Development's remarks, the Committee considered that the Government could impose more severe punishment on the contractor and the consulting engineer so as to demonstrate its determination to attach importance to the concept of environmental protection.

Management of construction and demolition materials

70. The **Deputy Secretary for Works (Works Policy)** and the **Director of Civil Engineering** responded that:

- in order to step up its efforts in monitoring the performance of consulting engineers, the Government was now conducting an appraisal every three months. If a consulting engineer received two consecutive adverse reports, he would be barred from bidding. This would be very severe punishment on the consulting engineer. In addition, the WB would issue a Consultant Performance Index, which would be taken into consideration in tender evaluation; and

- the WB would issue a circular in the near future about the evaluation of tenders, with a view to giving a weighting to the past performance of contractors in the evaluation.

71. The Committee pointed out that according to paragraph 6.12(a) of the Audit Report, the consulting engineer had not fully complied with the requirements of the relevant WBTC to incorporate a clause in the contract requiring the contractor to submit a disposal plan. The Committee questioned whether the TDD should be responsible for the omission by the consulting engineer appointed by the Department.

72. The **Director of Territory Development** explained that most of the TDD's contract works were designed and supervised by the same consulting engineer. As the works were relatively large in scale, the tender documents and the plans were voluminous. The Government had a system in place for checking such documents. A government engineer in his capacity as a project manager might have to be in charge of a couple of large projects. Hence there might be omissions. Although the TDD could not completely prevent omissions, it would strive to do its best in this regard.

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

- express grave concern that the Administration has not given due consideration and attached importance to the concept of environmental protection, as evidenced by the following cases relating to the implementation of the Penny's Bay Reclamation Stage 1 works and the entrustment works of the Container Terminal No. 9 (CT9) project;

Problems encountered in using public fill in the Penny's Bay Stage 1 Reclamation contract (PBR1 Contract)

- express serious concern that due to the collapse of the newly constructed seawall in Area W30 of the Tseung Kwan O reclamation contract (TKO Contract), the planned delivery of 3.6 million tonnes of public fill from the TKO Contract to the PBR1 Contract could not be made. Instead, marine sand had to be used in the PBR1 Contract;

- note that the Director of Civil Engineering has changed the design of the Penny's Bay Reclamation Stage 2 to increase the public fill intake by 3.6 million tonnes;

- express dismay that:

  (a) an additional cost of $7.7 million will be incurred in order to make arrangements to remedy the loss of opportunity to use the planned public fill in the PBR1 Contract; and

  (b) the site in TKO Area 137 will have to be occupied for stockpiling and sorting 3.6 million tonnes of public fill for about two years, which involves a notional land opportunity cost in the region of $6 million to $7 million per annum;

- urge the Director of Civil Engineering to ascertain the contractual liability for the additional cost involved and take action to pursue this claim against the parties responsible regarding the collapse of the seawall in Area W30 of the TKO Contract;

Need to follow prudent project management principles

- express serious concern that the Civil Engineering Department (CED) had committed the Government to making available Area W30 of the TKO Contract for use by the PBR1 Contractor by 1 July 2001 without securing the TKO Contractor's prior consent;

- acknowledge that the Director of Civil Engineering has issued guidelines for his staff to follow in handling similar situations in future;

- urge the Director of Civil Engineering to ensure that the CED will not offer to commit a third party to performing certain tasks unless the prior consent of this third party has been sought;

Management of construction and demolition materials

Problems of using public fill in entrustment works of CT9 project

- express concern that:

  (a) in the Land Grant of CT9, there was no provision requiring the developer to use public fill in the Government's entrustment works. As a result, the Government was unable to use 1.8 million tonnes of construction and demolition (C&D) materials in the CT9 project; and

  (b) the surplus C&D materials would have to be stockpiled in fill banks with a notional handling cost of $50 million;

- urge:

  (a) the Director of Civil Engineering to critically examine all existing government reclamation works entrusted to third parties to ascertain whether there are opportunities for using public fill in these works projects; and

  (b) the Secretary for Works to require all works departments to work closely with the CED to make full use of public fill in future entrustment works under their control and ensure that the legal documents for the entrustment works contain enabling clauses to meet this objective;

Need to implement the landfill charging scheme

- express dismay that although the legislation for implementing the landfill charging scheme has been in place since June 1995, the scheme has still not been implemented;

- urge the Administration to expeditiously implement the landfill charging scheme;

Need to promote wider use of recycled C&D materials

- express grave concern that as of December 2001, the estimated total demand for recycled aggregates by the works departments would only consume about one third of the planned output of the recycling plant in Tuen Mun Area 38 reclamation;

- urge the Secretary for Works and the Director of Civil Engineering to step up efforts to promote the wider use of recycled C&D materials in government projects so as to set an example for the construction industry to follow;

- acknowledge that:

  (a) the Secretary for Works will set up a working group to monitor and promote the use of recycled aggregates in public works projects;

  (b) as at May 2002, the works departments have identified 22 projects for which recycled aggregates can be used, so that the estimated total demand for recycled aggregates has increased to 900,000 tonnes for the next five years;

  (c) the works departments will be required to use recycled aggregates in half of their projects commencing in the coming six to nine months; and

  (d) the Environment and Food Bureau has been liaising with the Housing Department (HD) regarding the use of recycled aggregates in public housing projects, and the HD will complete an implementation plan in this regard by July 2002;

Room for improving the planning for off-site sorting facilities

- express concern that the actual throughput of the sorting facility at TKO Area 137 public filling area only averaged 35% of the expected level since its commissioning in August 2000 and had only made a limited contribution to the objective of saving landfill space;

- acknowledge that as of February 2002, the Director of Civil Engineering was considering the contractual complications and financial implications of continuing the operation of the TKO Area 137 sorting facility up to the end of its expected life in early 2003;

- urge the Director of Civil Engineering to:

  (a) realistically assess the resources required for operating a sorting facility up to its expected throughput; and

  (b) incorporate flexible provisions into the contract, if a sorting facility is to be operated in a public filling area, so that the sorting facility can

continue to operate in the event of an early cessation of the public filling operation;

Need to tighten the control over the disposal of C&D materials

- express concern that:

  (a) some 60,000 cubic metres of C&D materials of the Yuen Long Contract were used for illegal filling of fish ponds in the Tin Shui Wai Wetland Conservation Area; and

  (b) the requirements of Works Bureau Technical Circular (WBTC) No. 5/99 for the proper disposal of C&D materials had not been fully complied with in the Yuen Long Contract;

- acknowledge that:

  (a) the two landowners of the fish ponds concerned were fined a total of $20,000 and the ponds have been subsequently reinstated; and

  (b) the Director of Territory Development has undertaken to ensure that all relevant WBTC requirements for the proper disposal of inert C&D materials and C&D waste, such as those stated in WBTC No. 5/99, are included in contract documents and are complied with by the contractors during the execution of works;

- urge the Secretary for Works to consider ways to strengthen the control over the disposal of C&D materials at sites provided by the contractors; and

Follow-up actions

- wish to be kept informed of:

  (a) the outcome of the investigation into the collapse of the seawall in TKO Area 137 and the actions taken to pursue any claims from the parties responsible;

  (b) the actions taken by the Director of Civil Engineering to ensure that his staff will comply with the guidelines on prudent project management;

  (c) the outcome of the identification of opportunities for using public fill in all existing government reclamation works entrusted to third parties;

(d) further actions taken by the Secretary for Works and the Director of Civil Engineering to promote the wider use of recycled C&D materials in government projects so as to set an example for the construction industry to follow;

(e) further actions taken by the Secretary for the Environment and Food and the Director of Housing regarding the use of recycled aggregates in public housing projects; and

(f) the actions taken to strengthen control over the disposal of C&D materials at sites provided by the contractors.

Chapter 6

Slope safety and landslip preventive measures

Audit conducted a review of the economy, efficiency and effectiveness with which the Government implemented the slope safety programme. The review focused on the Geotechnical Engineering Office's (GEO's) efforts in upgrading substandard old slopes under the Landslip Preventive Measures (LPM) Programme, and in exercising geotechnical control of new slopes.

Landslip statistics and reporting of landslips

2. According to paragraph 2.5 of the Audit Report, following the Kwun Lung Lau landslip in 1994, the Government engaged a landslip expert to carry out an independent review of the landslip. The expert recommended, among other things, that all landslip occurrences were to be reported to the GEO as an incident report. The recommendation was accepted by the Government. However, paragraph 2.10 of the Audit Report revealed that the landslip figures published by the GEO were based on the landslips reported to the GEO for geotechnical advice and did not include landslips reported to other government departments. The Committee were concerned that the GEO had under-reported the number of landslips that occurred in Hong Kong every year. The Committee queried the reason for doing so.

3. **Mr Raymond CHAN Kin-shek, Deputy Director of Civil Engineering (Geotechnical)**, explained that:

- up to 1998, the GEO had requested other departments to forward to it the number of landslips reported to them. However, this requirement had been stopped since 1999. This was because, from experience, all major landslips or those that required the GEO's involvement had already been reported to the GEO one way or another. Landslips that had been handled without the GEO's involvement were mostly minor cases; and

- there was duplication in the number of landslips reported to other departments because the same case might have been reported to different departments, such as the Fire Services Department, the Hong Kong Police Force and the Highways Department. Hence, the total number of landslips known to the Government as a whole could not be worked out by simply adding the number of reports received by the GEO and that received by other departments.

4. The Committee pointed out that some so-called minor landslips could also result in serious consequences, as mentioned in Appendix C of the Audit Report. They wondered whether it would be more appropriate for the Civil Engineering Department (CED) to require other government departments to report all landslips they came across to the GEO so that the GEO could determine if follow-up actions should be taken, having regard to the severity of the cases.

5. The **Deputy Director of Civil Engineering (Geotechnical)** responded that:

- the landslips that had not been reported to the GEO in the past were definitely minor incidents without serious consequences. No human casualties had been caused. Hence, the departments could deal with the incidents by themselves; and

- the CED had issued a circular to all works departments in April 2002 requiring them to report all landslip incidents to the department in a standardised format. In the past, the information provided by other departments was sometimes incomplete, rendering it difficult for the GEO to follow up. The revised format would enable the departments to provide pertinent and adequate information to facilitate the CED in conducting analysis and eliminating duplicated reports.

6. The Committee noted from paragraph 2.13 of the Audit Report that since 1999, the GEO had discontinued the compilation of statistics on economic losses of landslips in terms of facilities affected and road closures. The Committee were concerned that this might lead to under-assessment of the consequences of landslips.

7. On the reasons for discontinuing the collection of landslip data from other departments and the compilation of figures on economic losses since 1999, **Dr LAU Ching-kwong, Director of Civil Engineering**, informed the Committee vide his letter of 17 May 2002, in ***Appendix 40***, that:

- landslips were reported either directly, or through other government departments, to the CED. Landslips that were not reported to the Government were generally of no public safety concern, such as trivial incidents or minor incidents in remote areas;

- as a result of enhanced public education and awareness programmes on slope safety by the CED in recent years, there had been a tendency for the general public to report, typically to more than one department, all the observable

incidents on slopes including trivial cases, such as very minor erosion, that were of no public safety concern. Government departments usually referred landslip incidents requiring geotechnical advice to the CED whilst they would attend to the other minor or trivial incidents without the need to involve the CED;

- in the past, the CED collected landslip records kept by other departments to compile the annual report on "Hong Kong Rainfall and Landslides". The landslip statistics presented in the publication referred to the genuine landslips reported to the CED. Since 1998, the CED's computerised landslip database, including the raw data on economic losses, had been uploaded onto the Slope Information System website. The information was accessible by the public in the CED and could be used for analysis;

- the decision to stop collecting the data on other minor or trivial incidents from other departments was made by the Management Committee of the GEO in November 2000. This was because based on past experience, such data did not provide useful information for the identification of genuine landslips and the consequences, and hence did not shed additional light on the state of slope stability in Hong Kong; and

- pursuant to Audit's recommendation, the CED would collect all the available landslip records kept by the departments, including cases that did not require geotechnical advice from the CED. The CED would publish the relevant landslip statistics, including economic losses, on an annual basis.

Registration of slopes

8. The Committee understood that the GEO registered all man-made slopes in Hong Kong that met the stipulated criteria for registration. In 1978, the GEO compiled the Old Catalogue of Slopes (Old Catalogue). However, the coverage of the Old Catalogue was found to be incomplete. In September 1998, the GEO completed the compilation of the New Catalogue of Slopes (New Catalogue). It was the GEO's intention that the New Catalogue would supersede the Old Catalogue. The Committee were concerned that the coverage of the New Catalogue was still incomplete. According to paragraphs 3.11 and 3.12 of the Audit Report, the GEO estimated that about 4% of the registrable man-made slopes might not have been identified and registered in the New Catalogue. Moreover, the number of landslips involving the slopes which should have been but had not been registered in the New Catalogue (i.e. the "missed" slopes), as revealed by the GEO's systematic studies of landslips from 1998 to 2000, was 62, or 6.5% of the total number of landslips.

9. The Committee considered that as the "missed" slopes were discovered upon the occurrence of landslips, they might be high consequence slopes and might still pose a threat to public safety. The Committee enquired:

- why the GEO could not identify the "missed" slopes when compiling the New Catalogue; and

- the basis of the estimation that about 4% of the registrable slopes might not have been registered.

10. The **Director of Civil Engineering** informed the Committee, at the public hearing and vide his letter of 7 May 2002 in ***Appendix 41***, that:

- in preparing the New Catalogue from 1994 to 1998 under the project "Systematic Identification and Registration of Slopes in the Territory", the CED carried out a systematic search for and identification of sizeable man-made slopes using aerial photograph interpretation techniques and existing topographic maps. This was the only feasible means for the task, as many old man-made slopes did not have documentary records and were difficult to identify from field inspections;

- the above method worked well for large slopes in built-up areas but there were technical constraints associated with it. For example, some slopes were concealed by dense vegetation, and overshadowed by buildings or clouds. Some were concealed due to incomplete aerial survey coverage at low altitude. For slopes located in rural areas or were not overshadowed by illegal building structures, the chance of their being missed was slim; and

- on completion of the New Catalogue, the CED carried out an assessment of sizeable man-made slopes which might not have been identified and registered. For this purpose, the department selected 165 map sheets, out of a total of 3,227 map sheets covering the whole of Hong Kong, for detailed examination. A total of 300 additional registrable slopes were identified in these 165 map sheets which contained 7,461 registered slopes, i.e. about 4%.

11. The Committee referred to paragraphs 3.7 and 3.11 of the Audit Report which mentioned that the compilation of the New Catalogue spanned from 1992 to 1998 at the cost of $110 million. Given that the "missed" rate was as high as 4%, the Committee questioned how the resources committed to the work could be justified.

12. The **Director of Civil Engineering** said that:

- the compilation of the New Catalogue was a formidable task that consumed much time and resources as more than 50,000 slopes were involved. Apart from collecting information from aerial photographs, a considerable amount of efforts and money had been spent on field inspections; and

- in fact, it had taken the CED six to eight months to identify the 4% "missed" slopes from the map sheets.

13. The Committee further asked what remedial actions the CED would take to locate and register the "missed" slopes. The **Director of Civil Engineering** replied, at the hearing and vide his letters of 7 May 2002 and 23 May 2002 in ***Appendices 41 and 42***, that:

- the slope maintenance departments would arrange for all slopes to be inspected by professional geotechnical engineers once every five years. During the Engineer Inspections of slopes by the maintenance departments, any "missed" slopes identified would be reported to the CED for registration. The inspections would be completed by September 2002;

- the GEO staff and their consultants would continue to identify "missed" slopes in the vicinity of the area inspected in the course of their site inspections, landslip preventive measures or landslip investigation; and

- the CED was now systematically re-examining the latest topographic plans to identify potential "missed" slopes. The department's plan was to register the identified "missed" slopes in the urban areas of Hong Kong and Kowloon before September 2002. Potential "missed" slopes in the New Territories and remote areas were also being identified from the maps and the CED tentatively planned to complete the necessary registration before March 2003.

14. The Committee considered that although the examination of topographic plans was a time-consuming exercise, it was well worth the effort as it could help identify potential high consequence slopes. The Committee asked:

- about the CED's estimation of the "missed" rate after the completion of the Engineer Inspections and the examination of topographic plans in September 2002; and

- whether the CED would consider contracting out the work of identifying and registering slopes, in order to ensure that there would be sufficient manpower to perform the task.

15. The **Director of Civil Engineering** advised that:

- it was difficult for him to promise how far the "missed" rate could be reduced. There was bound to be a small residual number of "missed" slopes but most of them would be of small size. In any case, the "missed" rate should be lower than 4%. The CED would try its best to identify any slopes that should be registered but had not been done so; and

- most slope works were carried out by consultants in addition to government engineers of the slope maintenance departments.

16. The Committee understood from paragraphs 3.13 and 3.14 of the Audit Report that the GEO had not yet completed the registration of most of the 62 "missed" slopes discovered during the systematic studies of landslips. Up to the end of November 2001, only 10 of these slopes (about 16%) had all their essential information fully recorded. The Committee queried the reason for the slow progress in completing the registration of these slopes.

17. The **Director of Civil Engineering** explained that:

- in the past, the CED would not register a slope until the upgrading work had been completed. He considered such an arrangement inappropriate and had instructed that, in future, all the essential information pertaining to a slope should be recorded as soon as the slope was identified. If necessary, the information recorded might be updated later; and

- the registration of all the 62 slopes had now been completed.

Progress of upgrading old government slopes

18. According to paragraphs 4.2 to 4.14 of the Audit Report, since 1977, the GEO had been carrying out upgrading works on the old government slopes through the LPM Programme. In February 1995, the then Governor-in-Council ordered that the LPM Programme should be accelerated with a view to substantial completion by 2000 of the upgrading of the slopes in the Old Catalogue. Subsequently, additional funding of

$1.3 billion for capital works and $400 million for creating 160 posts was allocated for the implementation of the 5-year Accelerated LPM Programme. Nevertheless, as mentioned in paragraph 4.10(a), in a Note for the Executive Council (ExCo) in July 1996, the Administration informed the ExCo that the target of the Programme was to complete the study and the necessary upgrading works on the "high consequence" slopes in the Old Catalogue by the year 2000.

19. It appeared to the Committee that when the Administration first sought the ExCo's approval of the 5-year Accelerated LPM Programme in February 1995, the target of the Programme was to upgrade all slopes in the Old Catalogue by 2000. However, after securing the resources for the Programme, in July 1996, the scope of the Programme was reduced and the target became to upgrade only the "high consequence" slopes in the Old Catalogue. The Committee questioned:

- why the target of the 5-year Accelerated LPM Programme was changed after only one year; and

- whether the Administration had misled the ExCo in the first place.

20. **Mr LEE Shing-see, Secretary for Works**[1], said that:

- it was the Government's policy that all slopes should be subject to proper maintenance. Upgrading works were also required of substandard slopes. The upgrading of a slope was a major works item involving detailed ground investigation, stability assessment, and design and construction works; and

- works departments clearly understood that while all slopes required maintenance, not all required upgrading. The apparent inconsistent targets of the 5-year Accelerated LPM Programme might be due to a choice of words.

21. The **Deputy Director of Civil Engineering (Geotechnical)** clarified that:

- it had all along been very clear that the target of the 5-year Accelerated LPM Programme was for "high consequence" slopes, rather than all slopes in the territory; and

- as stated in paragraph 4.8 of the Audit Report:

[1] With the implementation of the Accountability System for Principal Officials, the major statutory functions exercisable by the Secretary for Works have been transferred to the new Secretary for the Environment, Transport and Works with effect from 1 July 2002.

"In February 1995, ExCo advised and the then Governor ordered that:

(a) the LPM Programme should be accelerated, by some ten years, with a view to substantial completion by 2000 of the upgrading of the slopes in the Old Catalogue; and

(b) more low consequence slopes adjacent to roads and footpaths should be considered under the LPM Programme."

Read together, (a) could be understood as referring to the upgrading of "high consequence" slopes and (b) as referring to the inclusion of some "low consequence" slopes into the programme. If (a) already meant the upgrading of all slopes, there was no need to add (b) which specifically mentioned the inclusion of "low consequence" slopes.

22. The Committee disagreed that the reference to low consequence slopes in (b) above naturally implied that only high consequence slopes would be upgraded under the accelerated programme. In order to ascertain whether the Administration had coined the term "high consequence" to reduce the scope of the 5-year Accelerated LPM Programme after obtaining the resources, the Committee asked when the term was first used.

23. In his letter of 17 May 2002, the **Director of Civil Engineering** informed the Committee that:

- a classification system for the different categories of slope failure consequences (e.g. "high consequence" referred to "residential buildings, schools and hospitals", "low consequence" referred to "roads", and "negligible consequence" referred to "country parks") was adopted in 1977 by the Government. The system had remained in use, except for some refinement of the terminology made following a review pursuant to a recommendation given in the Slope Safety Review Report issued by the Works Branch in February 1995;

- the current system of the different consequence categories was promulgated in Works Bureau Technical Circular No. 13/99; and

- the LPM Programme had targeted old slopes affecting residential buildings, schools, hospitals, etc. The Slope Safety Review Report recommended that the LPM Programme be extended to cover selected "low consequence" slopes affecting busy roads and footpaths.

24. The Committee questioned whether, when announcing the target of the 5-year Accelerated LPM Programme to the public, the Administration had made it clear that not all slopes would be upgraded.

25. The **Deputy Director of Civil Engineering (Geotechnical)** responded that at the time when the 5-year Accelerated LPM Programme was announced, the Administration had stated that the programme would deal with high consequence slopes and selected low consequence slopes, and that about 800 government slopes would be upgraded.

26. In response to the Committee's request, the **Director of Civil Engineering** provided, vide his letter of 17 May 2002, the relevant press cuttings of 17 October 1995 for the Committee's reference. Noting that the press cuttings did mention that 800 government slopes and high consequence slopes would be upgraded under the accelerated programme, the Committee invited the Director of Audit's comments on the additional information.

27. In his letter of 31 May 2002, in ***Appendix 43***, the **Director of Audit** advised that:

- the Director of Civil Engineering's reply and the relevant attachments did not provide any new information which Audit was not aware of when the Audit Report was issued. Audit's observation, in paragraph 4.14 of the Audit Report, that the target of the 5-year accelerated LPM Programme had not been clearly stated when it was launched in 1995, was still valid;

- as mentioned in paragraph 4.13 of the Audit Report, in February 2002 the GEO and the Works Bureau informed Audit that the real intention of the programme was to fast-track, by some ten years, the upgrading works for the "high consequence" slopes in the Old Catalogue. However, this intended target had not been clearly stated in the ExCo Memorandum of February 1995;

- the press release dated 3 March 1995, which was issued shortly after the ExCo meeting in February 1995, said that "The current LPM Programme, which involves the inspection and, where necessary, upgrading of 10,000 man-made slopes listed in the 1977-78 catalogue of the Geotechnical Engineering Office, should be accelerated by ten years for substantial completion by 2000". The press release did not mention that the target of the programme was to upgrade "high consequence" slopes; and

- both the Secretary for Works and the Director of Civil Engineering had agreed with Audit's observations and accepted Audit's recommendations in this regard.

28. The Committee noted Audit's recommendation in paragraph 4.16(b) of the Audit Report that the Administration should conduct a post-implementation review of the 5-year Accelerated LPM Programme so as to ascertain whether the programme objectives had been achieved and whether there was any room for improvement. In response to the Committee's enquiry, the **Deputy Director of Civil Engineering (Geotechnical)** replied that the review was being conducted and would be completed by the end of 2002.

29. Turning to the overall progress of upgrading old government slopes, the Committee were concerned about the slow progress made. According to paragraphs 4.25 and 4.37 of the Audit Report, by March 2010, out of the 26,000 old government slopes in the New Catalogue, a total of 10,000 would have been dealt with. This meant that the Government would still need to deal with some 16,000 slopes after 2010. However, the Works Bureau and the GEO had not yet formulated a long-term plan for dealing with these 16,000 slopes. The Committee asked why the Administration had not yet drawn up any strategy in this regard.

30. The **Deputy Director of Civil Engineering (Geotechnical)** responded that:

- it was not the Administration's intention to upgrade all government slopes. Instead, a risk management approach was adopted with a view to reducing the risk of landslip by the quickest means and with the least resources. For instance, upgrading a slope affecting 1,000 persons would be more cost-effective than upgrading 1,000 slopes each affecting only one person; and

- in selecting the slopes for upgrading, the CED had all along focused on the high consequence slopes, i.e. those that would affect buildings, hospitals, schools and major roads. The department would not deal with the low consequence slopes, such as those affecting minor roads, parks and cemeteries. Nevertheless, all government slopes were maintained by the slope maintenance departments to prevent deterioration. There was also a mechanism in place for the departments to carry out urgent repair works to a slope if necessary.

31. The Committee noted from paragraph 4.4 of the Audit Report that over 90% of the old slopes required upgrading works to bring them to the current safety standards. The Committee queried whether it was the Administration's view that the 10,000 slopes to be

upgraded by 2010 were high consequence slopes, whereas the remaining 16,000 slopes would not pose any safety problems. Hence, the Administration could wait until after 2010 to determine if upgrading works to these slopes were necessary.

32. The **Deputy Director of Civil Engineering (Geotechnical)** stated that:

- according to the GEO's estimation, by March 2010, on the completion of the 10-year Extended LPM Programme, the overall landslip risk of all old slopes to the community would be reduced to 25% of that which existed in 1977. As regards the remaining 25% risk, upgrading might not be the most cost-effective way to deal with it; and

- the Administration would have to conduct a review before deciding the way forward. In deciding whether upgrading works should be carried out, the Administration would take into account the community's acceptability of the risk level.

33. In his letter of 23 May 2002, the **Director of Civil Engineering** supplemented that the Administration would commence in end-2002 a review to formulate, by 2004, a long-term strategy for tackling the remaining substandard old government slopes, upon completion of the first round of Engineer Inspections on government slopes in September 2002.

34. The Committee asked how the Administration determined whether a certain level of risk would be acceptable to the public. The **Secretary for Works**, and the **Director of Civil Engineer** in his letter of 17 May 2002, stated that:

- the Administration recognised that both the Legislative Council and members of the public were very concerned about slope safety. Given the large number of old slopes in Hong Kong, slopes were generally attended to in a priority order based on consideration of the degree of risk posed to the community. The priority ranking was in terms of risk to life (i.e. potential loss of life due to landslips), which was related to two items, namely the chance of failure and the severity of the consequence in the event of a landslip. The relative risk of a given slope was governed by the combined consideration of the likelihood of failure (as reflected by the factor of safety and the slope condition) and the consequence category; and

- although there would still be 16,000 slopes to be dealt with after 2010, the consequences of their failure, in terms of the number of people affected,

economic loss and probability of collapse, would be relatively low. Moreover, these 16,000 slopes were subject to routine maintenance and inspection by the slope maintenance departments. The GEO had also promulgated prescriptive measures to complement the LPM Programme.

35. The Committee enquired what the definition of risk was. In his letter of 17 May 2002, the **Director of Civil Engineering** provided a copy of Information Note No. 8/2000 published by the CED which set out the definition and classification of consequence to life and economic consequence of slopes.

36. The Committee noted from paragraph 4.18 of the Audit Report that the target of the 10-year Extended LPM Programme was to upgrade about 250 slopes a year during the 10-year period from 2000-01 to 2009-10. The Committee asked whether the programme would be speeded up in order to create more employment opportunities in the local construction industry.

37. The **Secretary for Works** replied in the affirmative. He said that the Works Bureau had already increased the funding for minor works programme, including slope works, by 50% in the current financial year.

38. In his letter of 23 May 2002, in ***Appendix 44***, the **Secretary for Works** supplemented that:

- the Administration would spend about $1.7 billion in 2002-03, an increase of about $200 million over the expenditure in the previous financial year, to improve slope safety; and

- it was estimated that the additional expenditure would create some 400 job opportunities in the construction industry.

39. The Committee further asked how the CED would implement Audit's recommendations on the reporting of the progress of the 10-year Extended LPM Programme, as set out in paragraph 4.40(a) of the Audit Report. In his letter of 23 May 2002, the **Director of Civil Engineering** advised that:

- the number of high consequence old government slopes dealt with under the 10-year Extended LPM Programme, development projects, enhanced maintenance programme and non-development squatter clearance programme had been counted separately in the past but had not been reported in such format; and

- the details of the slopes upgraded or dealt with under different measures would be published in the Annual Report on Government Slope Safety Works in 2003 and in the progress report on the Policy Objectives.

Geotechnical control of new slopes

40. According to paragraphs 5.11, 5.12 and 5.18 of the Audit Report, the GEO should, in principle, have checked all the new slopes formed after 1977 to ensure that their design and construction were up to the required safety standards. However, the GEO's investigations of the landslips from 1997 to 2000 revealed that there were 46 failed new slopes that had not been subject to the GEO's geotechnical control over their formation. The Committee were concerned that 40 (or 87%) of these slopes were government slopes. They queried why there had been omissions in exercising geotechnical control over the 46 slopes.

41. The **Director of Civil Engineering** set out the reasons in his letter of 7 May 2002. The Committee noted that the reasons given included "As the slopes would pose negligible risk to life, detailed design submissions were not required under special agreement between the Project Department and GEO/CED" and "the works involved were minor and hence submissions to GEO/CED may not be required". The Committee considered it undesirable that works departments were given the discretion of not making a geotechnical submission to the GEO.

42. In response, the **Director of Civil Engineering** said that in the past, works departments were indeed given the discretion of not making a geotechnical submission to the GEO for checking if they considered that the works involved were minor and of low consequence. However, he agreed that such an arrangement was not satisfactory. To rectify the situation, the Works Bureau and the GEO had introduced the checking certificate system to require departments to submit geotechnical designs to the GEO for checking. Under the system, the works departments had to obtain a checking certificate from the GEO for all newly constructed slopes. The Works Bureau had issued circulars to that effect.

43. The Committee doubted the effectiveness of the checking certificate system. They noted from paragraphs 5.4 and 5.5 of the Audit Report that before the introduction of the checking certificate system, Lands and Works Branch Technical Circular No. 3/88 already required works departments to submit the proposed designs of all geotechnical works prepared by them to the GEO for checking. The circular also stated that tenders should not be invited for the geotechnical works that had not been agreed by the GEO. However, as it transpired, the geotechnical designs of many failed new government slopes had not been submitted to the GEO. This reflected that the issuance of circulars could not guarantee compliance. In the circumstances, the Committee asked how the GEO could ensure that other government departments would observe the requirements of the checking certificate system.

44. The **Secretary for Works** and the **Director of Civil Engineering** stated that:

- it was not a question of works departments not complying with the technical circular. The technical circular stated that a works department should submit its proposed design of geotechnical works to the GEO for checking if the checking was warranted in the interest of public safety. It also stated that in case of doubt, the works department should consult the GEO to determine whether the GEO's checking was necessary. In other words, the works department concerned should make a judgement as regards whether its design should be submitted to the GEO for checking; and

- as revealed by the Audit Report, the designs of some failed government slopes had not been checked by the GEO. The introduction of the checking certificate system should be able to prevent the recurrence of similar cases in future because, under the system, all geotechnical designs by works departments must be submitted to the GEO for checking.

45. The Committee noted from paragraph 5.15 of the Audit Report that the checking certificate system was applicable to slope works for government contracts commencing after 30 September 2001. The Committee asked whether:

- the CED would require the works departments concerned to obtain checking certificates for the 46 failed new slopes which had not been subject to proper geotechnical control, by submitting the relevant information to the GEO for checking; and

- the failures of the new slopes was due to improper construction, technical problems, design faults or other reasons.

Slope safety and landslip preventive measures

46. The **Director of Civil Engineering** and the **Deputy Director of Civil Engineering (Geotechnical)** said that:

- the GEO was taking follow-up action with the works departments concerned to ensure that the design and construction of the 46 slopes were up to the required safety standards. The reasons for the failures of the new slopes were being investigated and conclusions had yet to be drawn up; and

- as there were many new slopes formed in Hong Kong every year, it would be very difficult, administratively, for the GEO to issue checking certificates to all slopes constructed before the introduction of the checking certificate system. Moreover, the conditions of a slope would change over time. The long-term stability of a slope depended more on proper maintenance than good design and construction. Hence, the GEO relied on routine maintenance and inspection, and the maintenance departments' regular Engineer Inspections of the slopes to monitor the stability of slopes.

47. In response to the Committee's enquiry about the responsibility of the works departments over the failed new slopes, the **Deputy Director of Civil Engineering (Geotechnical)** said that:

- the maintenance of government slopes was the responsibility of the seven slope maintenance departments, not the CED. The department responsible for maintaining a slope was not necessarily the one that designed and constructed the slope; and

- all the 46 failed slopes were relatively small slopes and none of the slope failures had resulted in fatalities or injuries. The slope maintenance departments were required by the GEO's guidelines to carry out an Engineer Inspection on their slopes at least once every five years. The inspections would be able to identify new slopes that had not been subject to proper geotechnical control. Appropriate follow-up actions would be taken by the GEO on the slopes detected.

48. In his letter of 17 May 2002, the **Director of Civil Engineering** provided the Committee with information on the status of geotechnical control of the 46 failed new slopes and the departments with assigned maintenance responsibility for them, as well as the known departments or parties responsible for the design and construction of the slopes.

Slope safety and landslip preventive measures

49. The Committee were concerned that apart from the issuance of guidelines, the GEO did not play a coordinating role in ensuring that the works departments would submit the geotechnical designs of all their slope works to the GEO for checking. The Committee asked how the Administration could ensure that all new slopes would be subject to proper geotechnical control by the GEO.

50. The **Secretary for Works** and **Mr WAI Chi-sing, Principal Assistant Secretary for Works (Works Policy and Safety)**, stated that:

- since the establishment of the GEO in 1977, the GEO had been exercising geotechnical control over the formation of new slopes by issuing detailed technical guidelines on the design and construction of slopes. These guidelines must be observed by works departments;

- according to Lands and Works Branch Technical Circular No. 3/88, all new slopes that posed a risk to public safety had to be checked by the GEO. The slopes that had not been submitted to the GEO for checking would be those of no safety concern; and

- as revealed in Table 7 in paragraph 5.10 of the Audit Report, there were 112 landslips involving new slopes from 1997 to 2000. Out of these 112 failed slopes, 41% had not been subject to proper geotechnical control over their formation. In other words, the geotechnical designs of 59% of these failed slopes had been checked by the GEO. This indicated that the slopes that had been checked and those that had not been checked had more or less the same chance of collapse.

51. As regards the measures taken by the CED to ensure the safety of the new slopes without proper geotechnical control by the GEO, the **Director of Civil Engineering** informed the Committee vide his letter of 7 May 2002 that:

- for all government slopes, as part of the regular Engineer Inspection Programme carried out by the slope maintenance departments, the status of design would be reviewed by the Engineer Inspection consultants. If any deficiency was identified, appropriate follow-up action would be taken (e.g. stability assessment or improvement works would be recommended if the slope design was absent or inadequate). The first round of Engineer Inspections would be completed by September 2002;

- previously exempted or illegally constructed slopes on private land were included in the GEO's systematic safety screening in order of priority, and

statutory actions would be initiated for any slopes considered to be dangerous or liable to become dangerous; and

- the GEO critically reviewed all landslips and took the required follow-up action with the works departments or private owners concerned.

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

Registration of slopes

- express serious concern that the coverage of the New Catalogue of Slopes is still incomplete as:

  (a) about 4% of the registrable man-made slopes (i.e. about 2,000 slopes) might not have been identified and registered; and

  (b) the number of landslips involving the "missed" slopes, as revealed by the systematic studies of landslips from 1998 to 2000, was 62, or 6.5% of the total number of landslips, indicating that these slopes may pose a threat to public safety;

- acknowledge that the Director of Civil Engineering has undertaken to:

  (a) register the identified "missed" slopes in the urban areas of Hong Kong and Kowloon before September 2002 and those in the New Territories and remote areas before March 2003; and

  (b) complete the registration of "missed" slopes found in the landslip investigations by September 2002;

Progress of upgrading old government slopes

- express serious concern that the target of the 5-year Accelerated Landslip Preventive Measures (LPM) Programme had been presented in inconsistent ways which may lead to under-reporting of the number of old government slopes that need to be upgraded;

- recommend that the Administration should state clearly the targets of government programmes, such as the 5-year Accelerated LPM Programme, when making submission to the relevant authority;

- express concern that:

  (a) up to the end of November 2001, the Works Bureau had not yet formulated any detailed work plan for the slope maintenance departments to achieve the target of improving 2,400 slopes by 2010, and for the works departments to achieve the target of upgrading 900 slopes by 2010; and

  (b) by March 2010, there will still be 16,000 old government slopes to be dealt with. However, the Works Bureau and the Geotechnical Engineering Office (GEO) have not yet formulated a long-term plan for dealing with these 16,000 old government slopes;

- acknowledge that the Director of Civil Engineering will:

  (a) publish the number of high consequence old government slopes dealt with under the 10-year Extended LPM Programme, development projects, enhanced maintenance programme and non-development squatter clearance programme in the Annual Report on Government Slope Safety Works in 2003 and in the progress report on the Policy Objectives; and

  (b) commence in end-2002 a review to formulate a long-term strategy for tackling the remaining substandard old government man-made slopes, upon completion of the first round of Engineer Inspections on government slopes in September 2002, with a view to formulating the strategy by 2004;

- acknowledge that the Secretary for Works has agreed to coordinate with all the slope maintenance departments and the relevant works departments to formulate work plans for the implementation of the slope upgrading/improvement works;

- acknowledge that the Administration has allocated an additional amount of $200 million in 2002-03 to improve slope safety and 400 job opportunities can be created in the construction industry as a result;

- urge the Administration to speed up the progress of upgrading/improving old government slopes in order to create more employment opportunities;

Geotechnical control of new slopes

- express concern that:

  (a) there were a significant number of slope failures involving new slopes (i.e. slopes formed after the establishment of the GEO in 1977) which had not been subject to proper geotechnical control; and

  (b) the practice of allowing the works departments the discretion of not making geotechnical submissions is at variance with the GEO's stated intention that all the new slopes are subject to geotechnical control by the GEO;

- urge the Director of Civil Engineering to:

  (a) take up a coordinating role to ensure that the geotechnical designs of slope works will be submitted by the works departments to the GEO for checking; and

  (b) as far as practicable, ensure that the old government slopes constructed before the implementation of the checking certificate system also comply with the requirements of the system; and

Follow-up actions

- wish to be kept informed of the progress made in:

  (a) implementing Audit's recommendations on landslip statistics and the reporting of landslips as mentioned in paragraph 2.22 of the Audit Report;

  (b) identifying and registering the "missed" slopes in the urban areas of Hong Kong and Kowloon as well as those in the New Territories and remote areas;

  (c) registering the "missed" slopes found in the investigations of landslips;

  (d) formulating a long-term plan for upgrading the remaining number of substandard old government slopes;

  (e) formulating work plans for the implementation of the slope upgrading/improvement works;

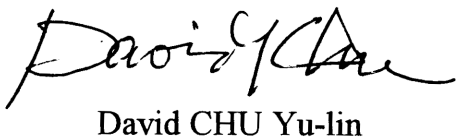
(f) implementing Audit's recommendations on the geotechnical control of new slopes as mentioned in paragraph 5.24 of the Audit Report; and

(g) implementing Audit's recommendations on the management of LPM works as mentioned in paragraph 6.18 of the Audit Report.

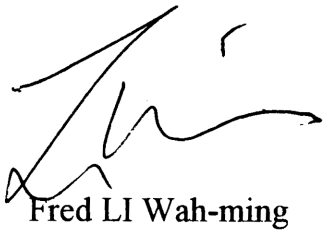
SIGNATURES OF THE CHAIRMAN, DEPUTY CHAIRMAN AND MEMBERS OF THE COMMITTEE

Eric LI Ka-cheung
(Chairman)

Emily LAU Wai-hing
(Deputy Chairman)

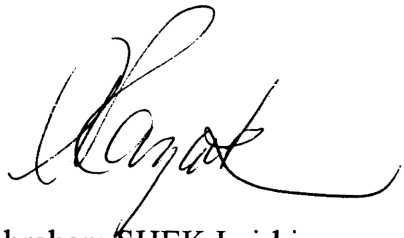


David CHU Yu-lin



Fred LI Wah-ming

LAU Kong-wah



Abraham SHEK Lai-him

Tommy CHEUNG Yu-yan

26 June 2002

CHAPTERS IN THE DIRECTOR OF AUDIT'S REPORT NOS. 37 AND 38 DEALT WITH IN THE PUBLIC ACCOUNTS COMMITTEE'S REPORT

Director of Audit's Report No. 37	**Subject**	**P.A.C. Report No. 38**
Chapter		**Chapter**
6	Mechanised street cleansing services	1
Director of Audit's Report No. 38		
Chapter		
1	Liberalisation of the local fixed telecommunications market	2
5	Residential services for the elderly	3
6	Financial performance of the Post Office	4
9	Management of construction and demolition materials	5
10	Slope safety and landslip preventive measures	6

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.

Witnesses who appeared before the Committee
(in order of appearance)

Mrs Rita LAU NG Wai-lan, JP	Director of Food and Environmental Hygiene
Ms Rhonda LO	Assistant Director (Operations) 3, Food and Environmental Hygiene Department
Mr CHEUK Wing-hing	Deputy Director (Environmental Hygiene) , Food and Environmental Hygiene Department
Mrs Marion LAI, JP	Deputy Director (Administration and Development), Food and Environmental Hygiene Department
Mr Patrick PANG	Assistant Director (Administration), Food and Environmental Hygiene Department
Mrs Carrie LAM CHENG Yuet-ngor, JP	Director of Social Welfare
Ms LUNG Siu-kit	Chief Social Work Officer (Licensing), Social Welfare Department
Dr William HO, JP	Chief Executive, Hospital Authority
Dr Daisy DAI	Senior Executive Manager (Medical Services Development), Hospital Authority
Dr Margaret CHAN FUNG Fu-chun, JP	Director of Health
Mr Marco WU, JP	Acting Director of Housing
Mr CHENG Yao-kong	Assistant Director of Housing (Allocation and Operations)
Dr E K YEOH, JP	Secretary for Health and Welfare
Mr Patrick NIP	Deputy Secretary for Health and Welfare
Mr LUK Ping-chuen, JP	Postmaster General
Mr Allan CHIANG, JP	Deputy Postmaster General

Mrs Violet CHAN NG Shiu-may	Chief Treasury Accountant, Post Office
Ms Miranda CHIU, JP	Acting Secretary for Economic Services
Dr LAU Ching-kwong, JP	Director of Civil Engineering
Mr Raymond CHAN Kin-shek, JP	Deputy Director of Civil Engineering (Geotechnical)
Mr LEE Shing-see, JP	Secretary for Works
Mr WAI Chi-sing	Principal Assistant Secretary for Works (Works Policy and Safety)
Mr CHING Kam-cheong	Assistant Director of Civil Engineering (Civil)/Port
Mr CHAN Chi-yan	Chief Engineer/Port Works Civil Engineering Department
Mr WONG Hung-kin, JP	Director of Territory Development
Mrs Lily YAM KWAN Pui-ying, JP	Secretary for the Environment and Food
Ms Annie CHOI	Principal Assistant Secretary for the Environment and Food
Mr Robert LAW, JP	Director of Environmental Protection
Dr Lawrence WONG	Principal Environmental Protection Officer, Environmental Protection Department
Mr Anthony WONG Sik-kei, JP	Director-General of Telecommunications
Mr AU Man-ho, JP	Deputy Director-General of Telecommunications
Mrs Carrie YAU, JP	Secretary for Information Technology and Broadcasting
Ms Gracie FOO	Principal Assistant Secretary for Information Technology and Broadcasting
Mr CHAN Wing-sang, JP	Deputy Secretary for Works (Works Policy)

Introductory Remarks by
Chairman of the Public Accounts Committee,
the Hon Eric LI Ka-cheung, JP,
at the First Public Hearing of the Committee
on Monday, 6 May 2002

Good morning, ladies and gentlemen. Welcome to the Public Accounts Committee's public hearing relating to the Director of Audit's Report on the results of value for money audits completed between October 2001 and February 2002, which was tabled in the Legislative Council on 24 April 2002.

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 Government's accounts and the results of value for money audits of the Government and of organisations which receive funding from the Government. The purposes of the Committee's considering the Director's reports are to receive evidence relevant to the reports in order to ensure that the facts contained in the Director's reports are accurate, and to draw conclusions and make recommendations in a constructive spirit and forward-looking manner. I also wish to stress that the objective of the whole exercise is such that the lessons learnt from experience and our comments on the performance of the public officers concerned will enable the Government to improve its control over the expenditure of public funds, with due regard to economy, efficiency and effectiveness.

The consideration of the Director's reports follows an established process of public hearings where necessary, internal deliberations and publication of the Committee's report. The Committee has an established procedure for ensuring that the parties concerned have a reasonable opportunity to be heard. After the Committee is satisfied that it has ascertained the relevant facts, it will proceed to form its views on those facts, followed by a process of formulating its conclusions and recommendations to be included in its report. In accordance with Rule 72 of the Rules of Procedure of the Legislative Council, the Committee is required to make its report on the Director's report to the Legislative Council within three months of the date at which the Director's report is laid on the Table of the Council.

Following a preliminary study of the Director of Audit's Report No. 38, the Committee has decided, in respect of five chapters in the Report, to invite the relevant public officers and parties concerned to appear before the Committee and answer our questions. We have, apart from today's hearing, also set aside the morning of 8 May and the afternoon of 9 May for the 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 opinions of the Committee. These recommendations will be made public when we report to the Legislative Council. Before then, we will not, as a committee or individually, be making any public comment on our conclusions.

The Committee is now in formal session.