

**REPORT OF THE
PUBLIC ACCOUNTS COMMITTEE
ON
THE REPORTS OF THE DIRECTOR OF AUDIT
ON
THE ACCOUNTS OF THE GOVERNMENT OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION
FOR THE YEAR ENDED
31 MARCH 2002
AND THE RESULTS OF
VALUE FOR MONEY AUDITS (Report No. 39)
AND
*SUPPLEMENTAL REPORT ON
REPORT NO. 38 OF THE DIRECTOR OF AUDIT
ON
THE RESULTS OF
VALUE FOR MONEY AUDITS***

February 2003

P.A.C. Report No. 39

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I. INTRODUCTION

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

2. **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	Hon Eric LI Ka-cheung, JP
Deputy Chairman	Hon Emily LAU Wai-hing, JP
Members	Dr Hon David CHU Yu-lin, JP Hon SIN Chung-kai Hon LAU Kong-wah Hon Abraham SHEK Lai-him, JP 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 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 Director of Bureau 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 could assist the Committee in its deliberations;
- (c) the Director of Audit and the Secretary for Financial Services and the Treasury shall be called upon to assist the Committee when Controlling Officers or other persons are providing information or explanations to the Committee;
- (d) the Committee shall take evidence from any parties outside the civil service and the subvented sector before making reference to them in a report;
- (e) the Committee shall not normally make recommendations on a case on the basis solely of the Director of Audit's presentation;
- (f) the Committee shall not allow written submissions from Controlling Officers other than as an adjunct to their personal appearance before the Committee; and

PROCEDURE

- (g) the Committee shall hold informal consultations with the Director of Audit from time to time, so that the Committee could 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 the Reports of the Director of Audit on:

- the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2002; and
- the results of value for money audits (Report No. 39),

which were tabled in the Legislative Council on 20 November 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 a chapter in 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. The Committee's Report No. 38 was tabled in the Legislative Council on 10 July 2002.

4. In addition, this Report takes stock of the progress of the action taken by the Administration on the recommendations made in the Committee's Report Nos. 36 and 37 and offers the Committee's views on the action taken. These are detailed in Sections III and IV of this Report.

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

III. REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON REPORT NO. 36 OF THE DIRECTOR OF AUDIT ON THE RESULTS OF VALUE FOR MONEY AUDITS [P.A.C. REPORT NO. 36]

Laying of the Report Report No. 36 of the Director of Audit on the results of value for money audits was laid in the Legislative Council on 25 April 2001. The Committee's subsequent Report (Report No. 36) was tabled on 4 July 2001, thereby meeting the requirement of Rule 72 of the Rules of Procedure of the Legislative Council that the Report be tabled within three months of the Director of Audit's Report being laid.

2. **The Government Minute** The Government Minute in response to the Committee's Report No. 36 was laid in the Legislative Council on 31 October 2001. A progress report on matters outstanding in the Government Minute was issued on 17 October 2002. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 8 below.

3. **Provision of slaughtering facilities for supplying fresh meat** (Chapter 2 of Part IV of P.A.C. Report No. 36). The Committee was informed that:

- the Food and Environmental Hygiene Department (FEHD) intended to engage a contractor to forecast the slaughtering throughput of livestock in the territory up to the year 2010, having regard to the demand for fresh meat and the eating habits of the population. Based on the results of the forecasting exercise, the FEHD would carry out a detailed study to ascertain the feasibility of centralising the slaughtering operation of livestock at the Sheung Shui Slaughterhouse (SSSH); and
- as no bid had been received for the forecasting exercise, the FEHD was arranging a fresh tender with revised specifications to attract bidders.

4. The Committee wishes to be kept informed of the results of the forecasting exercise on the slaughtering throughput of livestock in Hong Kong and of the subsequent detailed study on the feasibility of centralising the slaughtering operation of livestock at the SSSH.

5. **Provision of staff for Departmental Accounting Units** (Chapter 3 of Part IV of P.A.C. Report No. 36). The Committee was informed that:

Need for reviews of staff establishment of the departmental accounting units (DAUs) based on objective criteria and productivity standards

- the Financial Services and the Treasury Bureau had issued a Financial Circular to remind Controlling Officers to regularly review the DAUs. The Treasury had also included details of the requirements in its Financial Management Guide;

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The provision of staff for the DAUs of three departments with significant changes in accounting workload and job complexities

- the Civil Aviation Department had completed its review and found the current establishment of its DAU, which had been reduced since the de-commissioning of Kai Tak, to be appropriate. Separately, the Leisure and Cultural Services Department had also completed its review and re-engineered its DAU, with the replacement of an Assistant Director of Accounting Services by a Senior Treasury Accountant. Meanwhile, the Food and Environmental Hygiene Department (FEHD) started its review in June 2002; and

Need to establish a management information system and performance measures

- the Treasury had included the requirements in the Financial Management Guide for Controlling Officers.

6. The Committee wishes to be kept informed of the results of the review of the staff establishment of the DAU of the FEHD.

7. **Government's efforts to promote e-business in Hong Kong** (Chapter 5 of Part IV of P.A.C. Report No. 36). The Committee was informed that:

Strategy of the Commerce, Industry and Technology Bureau (CITB) for developing e-government

- the CITB had continued to make progress towards meeting the overall E-government target of providing an e-option for 90% of the public services which were amenable to the electronic mode of service delivery by end-2003. As of June 2002, over 78% of such services were provided with e-option, up from some 70% in the third quarter of 2001;
- the CITB had organised a sharing session for bureaux and departments on the "electronic Government form" project and electronic submissions. It had also written to bureaux and departments to encourage them to promote e-submissions and to better ascertain customers' needs and expectations towards electronic services by conducting customer surveys or focus group discussions with their customers;

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Government's efforts to establish a legal framework for conducting e-business

- the public consultation on the review of the Electronic Transactions Ordinance had ended on 30 April 2002. The CITB was studying the public comments received and aimed to introduce any necessary legislative amendments into the Legislative Council (LegCo) in the 2002-03 legislative session. Before doing so, the CITB would brief the LegCo Panel on Information Technology and Broadcasting on the proposals;

Government's efforts to establish a public key infrastructure (PKI) for conducting e-business and logistics service provided by the Hongkong Post (HKP) for e-business

- the Hongkong Post Certification Authority (HKPCA) had issued over 78,000 digital certificates (e-Certs) by end-September 2002, as compared with some 35,000 at end-September 2001. It had also continued its efforts to explore and launch new services using e-Certs;
- the HKPCA had extended its service to support the development of mobile commerce by partnering with a wireless PKI technology provider to jointly launch the mobile e-Cert service. The service was the first in the world to support wireless applications on a wide range of handheld devices for community-wide adoption. Users could conveniently apply for and obtain mobile e-Certs at the designated outlets of two local mobile operators who acted as Registration Authority of the HKPCA. The mobile e-Certs embedded in the personal digital assistants could be used for stock trading;
- to build a solid infrastructure for promoting e-business and e-government, the Government together with the HKPCA would take the opportunity of the identity card (ID card) replacement exercise starting in mid-2003 to offer to citizens one-year free use of e-Certs embedded in the smart ID cards. The Administration envisaged that with this critical mass of users, more applications would be developed in the market which would in turn sustain the momentum of the use and subsequent take-up of e-Certs. In this regard, the HKPCA issued an open tender in July 2002 to invite proposals for joint development of business applications adopting e-Certs;
- to promote cross-border e-commerce, the HKPCA had also continued its efforts to form partnership with public certification authorities (CAs) abroad to develop cross-certification arrangements and other forms of cooperation. The HKPCA was also coordinating the establishment of a Hong Kong PKI

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Forum to strengthen industry cooperation on PKI development and to provide a focal point for Hong Kong's participation in regional and international activities;

- the Postmaster General would continue to monitor the expenditure and revenue of the HKPCA operations closely. The CITB would review the Government's funding strategy for the HKPCA service in late 2002;
- the HKP was actively exploring new business opportunities in logistics service provision and had successfully recruited new clients. Cross-border logistics services in terms of product fulfillment were also being discussed with other postal administration. It was envisaged that the trial service will be rolled out before end of 2002;
- the HKP had been trying to contain the cost of its logistics services. The additional recurrent cost was largely being met by its existing resources. It carefully reviewed the projected revenue, profit and payback period before implementation of new business activities and projects. Additional equipment and staff costs were only deployed where justified by the possible new revenue generated from the service;
- to understand the logistics market in Hong Kong and the strength of the HKP, the HKP regularly collected market information to compare the pricing and competitiveness with key logistics companies. As pledged, the HKP would carry out a full study by the end of 2002 to decide on the direction of the future development of the service;

Government's progress in implementing various e-business initiatives

- as regards the recommendation of the Director of Audit (D of A) relating to the Community Electronic Trading Service (CETS), the CITB had taken action to introduce competition in the provision of electronic data interchange (EDI) services when Tradelink's franchise expired at the end of 2003. The relevant tender was issued on 30 April 2002. The CITB had received three proposals by the close of tender on 28 June 2002 and was examining the proposals with a view to awarding the service contracts by October 2002;
- in parallel, the CITB was negotiating with Tradelink on the detailed terms and conditions of the agreement for provision of its services beyond 2003;

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- as regards the D of A's recommendations on information dissemination through the Internet, the Administration revised and issued the Guidelines on Dissemination of Information through Government Homepages to bureaux/departments in June 2002. Ensuring content accessibility was one of the main sections of the new Guidelines;
- the Administration launched a new Government Homepage (www.info.gov.hk) in late March 2002. The Administration had enhanced its categorisation of information and mode of navigation so that Internet users could access quicker the required information. The total page views of the Government Homepage had increased. Compared with March, there was an average increase of 20% during April to July 2002. The total page views of the Government Homepage in 2001 were 537,468,118, representing a 75.7% increase over 2000;
- the Administration continued to make vigorous efforts to promote the public's awareness of the Electronic Service Delivery (ESD) Scheme and the use of ESD services. The Administration had studied the measures and incentives adopted by overseas governments in promoting utilisation. The Administration had already been implementing some similar measures and incentives. The Administration would explore implementing more with various departments;
- in 2001, the Administration introduced online booking of marriage dates, registration to sit for public examinations, purchase of Government and public examination publications, booking of sports and leisure facilities and purchase of statistical data under the ESD Scheme. The last one had been particularly useful for businesses as they could obtain statistical data online. The Administration had also endeavoured to enhance the services provided under the ESD Scheme to improve their business and citizen-friendliness. The Administration planned to introduce online search of cases of bankruptcy and compulsory winding-up of companies in late 2002. The Administration would conduct a review of the Scheme within three years after its implementation and would report back to the LegCo, through the appropriate Panel;
- as for the Electronic Tendering System (ETS), the Government Supplies Department (GSD) and the contractor of the ETS would continue to promote to suppliers the use of electronic tendering. The percentage of tender offers received by the GSD electronically was about 12.27% during May 2002 to July 2002;

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- the Administration had completed the enhancement project to improve the user-friendliness of the ETS and adopt the e-Cert issued by the HKP for authentication of suppliers at the end of 2001 as scheduled;
- the use of purchasing cards had been increasing steadily. During January to June 2002, the number of transactions was 26,974, as compared to 24,502 during the previous six months (i.e. from July to December 2001);
- the GSD would continue to monitor closely and to enforce the use of purchasing cards for low value purchases. It would assist departments in resolving problems. The card issuing bank would continue with the recruitment drive, in particular among suppliers nominated by departments, in order to enlist more suppliers to accept purchasing cards for payment; and

Government's efforts to meet common challenges associated with the growth of e-business

- the CITB had continued to work with relevant bureaux and departments as well as the local industry and support organisations to develop measures to facilitate the development of e-business in Hong Kong. For instance, the CITB had, together with the Hong Kong Productivity Council, launched an information technology (IT) assessment service to encourage and assist small and medium enterprises (SMEs) in specific sectors to adopt e-commerce. The CITB and the Information Technology Services Department had also been organising a series of sector-specific seminars to promote e-commerce adoption by SMEs in the relevant sectors. In addition, the CITB had encouraged the IT industry to make use of the SME Development Fund to strengthen the IT capability of SMEs in Hong Kong. The Fund had so far approved funding support of over \$20 million for 23 IT-related projects.

8. The Committee wishes to be kept informed of further progress on this subject.

**IV. REPORT OF THE PUBLIC ACCOUNTS COMMITTEE
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(REPORT NO. 37) AND SUPPLEMENTAL REPORTS OF THE PUBLIC ACCOUNTS
COMMITTEE ON REPORT NOS. 35 AND 36 OF THE DIRECTOR OF AUDIT ON THE
RESULTS OF VALUE FOR MONEY AUDITS [P.A.C. REPORT NO. 37]**

Laying of the Report The Director of Audit's Report on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2001 and the Report on the results of value for money audits were laid in the Legislative Council on 21 November 2001. The Committee's subsequent Report (Report No. 37) was tabled on 6 February 2002, thereby meeting the requirement of Rule 72 of the Rules of Procedure of the Legislative Council that the Report be tabled within three months of the Director of Audit's Report being laid.

2. **The Government Minute** The Government Minute in response to the Committee's Report No. 37 was laid in the Legislative Council on 15 May 2002. A progress report on matters outstanding in the Government Minute was issued on 17 October 2002. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 67 below.

3. **Services provided by the Official Receiver's Office** (3 - 6 of Part III of P.A.C. Report No. 37). The Committee was informed that:

General

- the Task Force set up by the Official Receiver's Office (ORO) to oversee the implementation of the recommendations in the Committee's Report and the Director of Audit's Report had continued to review the practices and procedures in the administration of insolvency cases, and had introduced further improvement in other areas including book debt collection and public search. The ORO expected to complete the comprehensive review by the end of 2002;

Monitoring of staff workload

- the ORO had completed the analysis of the data collected in the six-month exercise commenced in mid-September 2000. The ORO had established productivity targets for the Financial Services and Legal Services Divisions to facilitate monitoring of progress and efficiency; and

Consultancy study and fees charged by the ORO

- as regards the consultancy study on the review of the role of the ORO, the Administration published a public consultation paper on the outcome of the study in June 2002. The consultation period ended on 31 August 2002. The Administration was considering the responses received from the public

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and expected to complete its analysis by the end of 2002. The Administration would look into the issues of cost-recovery rate, the fee structure and fees to be charged in relation to insolvency cases in this context.

4. The Committee wishes to be kept informed of further development on the subject, including:

- the outcome of the Task Force's comprehensive review of the practices and procedures in the administration of insolvency cases;
- the promulgation of guidelines on liquidator's remuneration for private insolvency practitioners; and
- the outcome of the consultancy study and the issues of cost-recovery rate, the fee structure and fees to be charged in relation to insolvency cases.

5. **Management of outdoor road maintenance staff** (7 - 8 of Part III of P.A.C. Report No. 37). The Committee was informed that the Highways Department (HyD) completed the study on staff productivity in mid-September 2002. The HyD was examining the findings of the study and would, based on the recommended productivity standard, consider measures to be taken with a view to providing a more efficient service to the public.

6. The Committee wishes to be kept informed of the measures taken by the HyD to improve productivity and human resources management, based on the findings of its study on staff productivity.

7. **The administration of the Judiciary** (9 - 12 of Part III of P.A.C. Report No. 37). The Committee was informed that:

Court waiting time

- for the 12-month period ending June 2002, the High Court recorded an increase of 174% in the number of bankruptcy cases (from 7,870 to 21,550) as compared with that of the previous 12-month period. This had contributed significantly to the increase of 36% in the overall civil caseload of the High Court, reaching 38,246 in the year ending June 2002. As it was

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unlikely that the increasing caseload would ease off in the near future, the Judiciary did not expect that the anticipated improvements in the waiting time for cases in the High Court arising from the increase in the civil jurisdictional limit of the District Court could be realised at this stage;

Review of the financial limits of the civil jurisdiction of courts

- for the 22-month period from 1 September 2000 (i.e. the effective date of the new civil jurisdictional limit) to 30 June 2002, the number of civil cases filed at the District Court reached 43,195, representing an increase of 18% over that of the previous 22-month period. This figure had not taken into account outstanding tax claims filed by the Inland Revenue Department;
- the Judiciary would review the existing civil jurisdictional limit of the District Court towards the end of 2002, with a view to examining whether there was a case for raising the limit further to \$1 million;

Labour Tribunal

- for the first six months of 2002, the Labour Tribunal received 5,966 cases, representing an increase of 23% as compared with 4,847 cases for the same period last year. Having regard to the current economic environment, the Judiciary did not envisage that the number of cases would drop in the near future and therefore considered it appropriate to maintain the appointment register in the meantime so that claimants could be served properly on a day-to-day basis;

Court sitting hours

- the Judiciary considered that court sitting hours were not appropriate indicators of court performance. This was supported by the preliminary findings of the research study conducted by the Legislative Council Secretariat on “Measurement of Efficiency of the Administration of the Judiciary”, which indicated that having regard to overseas experiences, utilisation of judicial time or court sitting hours did not seem to be a standard measurement of the efficiency of the administration of justice. For the time being, the Judiciary would continue to use court waiting time as performance indicators in the Controlling Officer’s Report; and

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User satisfaction surveys on court services

- to address users suggestions as revealed by the user satisfaction survey on the services provided by the magistrates' courts, the Judiciary was improving signages in the magistrates' courts. Besides, it had extended the opening hours of the accounts offices from 4:15 pm to 5:00 pm with effect from 2 September 2002.

Further developments

8. In respect of the cases handled by the Labour Tribunal, the Committee asked:

- whether measures would be taken to cope with the increasing caseload of the Labour Tribunal;
- the reduction of waiting time that had been achieved since the publication of the Committee's Report in June 2000 and the current average waiting time for labour tribunal cases; and
- the respective percentages of cases that were withdrawn by the claimants before filing and between filing and first hearing, in each of 2001 and 2002.

9. The **Judiciary Administrator** responded, vide his letter of 7 January 2003 in *Appendix 3*, that:

- in 2002, the Labour Tribunal received an all-time high of 12,326 cases, representing an increase of 18% over 2001 (10,450 cases), or 6% over the previous peak in 1999 (11,594 cases). To keep up with the increased demand, the Labour Tribunal had introduced the following measures:
 - (a) replacing one night court by a day court in October 2001, thereby increasing the capacity of the courts to deal with trials; and
 - (b) increasing the output of the Tribunal Officers in case preparation, thereby enabling more cases to be ready for trial;
- with the implementation of the above measures, the average waiting times at the Labour Tribunal had been maintained within targets as follows:

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		<u>Waiting Time (days)</u>		
		<u>Targets</u>	<u>2001</u>	<u>2002</u>
				<u>as at 6 January 2003</u>
From appointment to filing of a case	30	14	19	9
From filing of a case to hearing	30	24	25	20

- as regards cases withdrawn by the claimants, the information was as follows :

	<u>2001</u>	<u>2002</u>
	<u>(As a percentage of all cases filed in a year)</u>	
Before filing	9.6%	8.2%
Between filing and first hearing	6.7%	6.5%

10. The Committee wishes to be kept informed of further progress on this subject.

11. **Control of obscene and indecent articles by the Television and Entertainment Licensing Authority** (5 - 6 of Part IV of P.A.C. Report No. 37). The Committee was informed that the Television and Entertainment Licensing Authority (TELA) was considering whether and, if so, how to revise the policy proposals in the light of the public comments received in the consultation exercise on the 2000 Review of the Control of Obscene and Indecent Articles Ordinance (COIAO).

12. The Committee wishes to be kept informed of the TELA's policy proposals and legislative amendments after it had considered the public comments received in the consultation exercise on the 2000 Review of the COIAO.

13. **Services provided by the Social Welfare Department for offenders and children/juveniles in need of care or protection** (9 - 15 of Part IV of P.A.C. Report No. 37). The Committee was informed that following site visits, the Social Welfare Department (SWD) had drawn up an initial plan to co-locate its existing residential homes for young offenders at a site in the New Territories. Apart from addressing the

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Committee's concern over the less than optimal use of those urban sites occupied by the SWD's existing residential homes, the co-location proposal would bring about significant benefits in operational environment, service improvement and enhanced productivity. The Architectural Services Department was carrying out the usual project feasibility assessment. The SWD would then seek funding for the project under the Public Works Programme.

14. The Committee wishes to be kept informed of the progress of the SWD's plan to co-locate its existing residential homes for young offenders at a site in the New Territories.

15. **Beneficial use of construction waste for reclamation** (21 - 22 of Part IV of P.A.C. Report No. 37). The Committee was informed that:

- in the first three quarters of 2002, local construction activities produced about 11.9 million tonnes of construction and demolition (C&D) materials, 16.7% more than that for the same period in 2001. Of these, about 75.5% or 9 million tonnes of inert C&D materials (also known as public fill) were reused. In the first three quarters of 2001, the Administration reused about 83% or 8.5 million tonnes of public fill. There was a 7.5% reduction in the reuse rate compared with the same period in 2001;
- the Tseung Kwan O Area 137 Reclamation Stage II, Jordan Road Reclamation Phase III and Pak Shek Kok Reclamation had stopped accepting public fill either because the filling work had been completed or sufficient public fill had been stockpiled for the filling work. The remaining reclamation and site formation projects (i.e. the Tuen Mun Area 38 Reclamation Stage 2, Infrastructure for Penny's Bay Development including Yam O Public Transport Interchange Reclamation and North Tsing Yi Reclamation) would provide sufficient capacity to accommodate all public fill produced till end-2002. Although there was sufficient capacity territory-wide to accommodate public fill, some truck drivers did not want to deliver the public fill to the outlet at Tuen Mun after the outlets at Tseung Kwan O and Pak Shek Kok were closed. Instead, they disposed of the public fill at landfills, especially the South East New Territories landfill to avoid the long haulage. As a result, for the first three quarters of 2002, the landfills received about 2.9 million tonnes of C&D materials, 70% more than the 1.7 million tonnes for the same period in 2001;

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- the Administration had obtained funding approval for Penny's Bay Reclamation Stage 2 and Central Reclamation Phase III. These projects would provide for 20 million tonnes of public fill between 2003 and 2007. However, this would still be insufficient for all the public fill produced in the next few years. To tackle this shortfall, and to minimise the disposal of public fill at the landfills, the Civil Engineering Department (CED) had commissioned a temporary "fill bank" at Tseung Kwan O Area 137 since late October 2002 and would commission another at Tuen Mun Area 38 by early 2003;
- the Administration was promoting the use of recycled aggregates recovered from hard inert C&D materials in public works projects, and had amended the materials specifications for public works projects to allow the use of recycled aggregates in road sub-base and in concrete for secondary structures. The CED commissioned the Tuen Mun temporary recycling plant on 20 July 2002. Up to October 2002, the Administration had identified some 100 public works projects that would use about 250,000 tonnes of recycled aggregates from the plant each year and would continue to identify more projects to use recycled aggregates and promote their use in public works projects. The Administration was also discussing with the Housing Department (HD) the use of recycled aggregates in public housing projects;
- the study on setting up a temporary recycling plant at Kai Tak had found that, with landfill charging and some support measures in place, the plant might be commercially viable. The CED was preparing the contract documents and would commence the tender procedure for the plant if it was satisfied that there was sufficient demand for the recycled aggregates from the plant;
- the CED was studying the long-term arrangements to accommodate inert C&D materials. The CED had shortlisted three potential sites and was studying their conceptual layouts with different potential afteruses. The CED undertook to complete the study by end-2002;
- the temporary public filling barging points at Sai Ying Pun and Quarry Bay continued to provide convenient outlets for public fill on Hong Kong Island. The requirements for long-term barging points on Hong Kong Island were still under review in conjunction with the Western District Development. The CED was planning for two long-term barging points at Chai Wan and Kwai Chung; and
- the Administration consulted the Legislative Council (LegCo) on the details of a landfill charging scheme in May and June 2002 and would introduce to the LegCo the legislative proposals as soon as possible.

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Further developments

16. In response to the Committee's enquiry about the progress of the legislative proposals on the landfill charging scheme, the **Secretary for the Environment, Transport and Works** responded, vide her letter of 9 January 2003 in *Appendix 4*, that:

- landfill charging was an essential component of the Administration's waste management strategy as it provided an economic incentive for waste producers to reduce waste and carry out sorting to facilitate reuse/recycling, thereby helping to slow down the depletion of the limited landfill capacity.
- the Administration planned to adopt a phased approach and would introduce the landfill charge for the disposal of construction waste in the first phase. In May and June 2002, the Administration consulted the LegCo Panel on Environmental Affairs on the framework of the charging scheme; and
- the Administration was working on the associated arrangements and the detailed legislative proposal to effect the charging scheme. It would brief the Panel on the details in the coming months once they had been finalised. The Administration aimed to introduce the relevant Bill to the LegCo in mid-2003 and implement the charging scheme in 2004.

17. The Committee wishes to be kept informed of the progress of the legislative proposals on the landfill charging scheme.

18. **The provision of government wholesale food markets** (27 - 28 of Part IV of P.A.C. Report No. 37). The Committee was informed that:

- the Planning Department was reviewing the concept plan of the Western District Development Strategy (WDDS) in the light of comments received from public consultation. Reservation of the site at the Western Reclamation for reprovisioning the wholesale food market would have to take into account the findings of the Study on Route 7 alignment and the Mass Transit Railway Corporation Limited's West Island Line proposal; and
- the Administration was reviewing other options of developing the Phase II site of the Cheung Sha Wan Wholesale Food Market Complex (CSWWMC) for wholesale market purpose, and would continue to keep the LegCo Panel on Food Safety and Environmental Hygiene informed of the development.

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Further developments

19. The Committee asked whether the Administration would consult the Panel on Food Safety and Environmental Hygiene on the detailed design of the Phase II project of the CSWWMC. The **Director of Agriculture, Fisheries and Conservation** responded, vide his letter of 23 December 2002 in *Appendix 5*, that:

- having regard to the objection of the wholesalers towards operating in a multi-storey market complex involving five trades and the need to detach relocation of poultry market from the project on public health ground arising from avian flu, the Administration had decided that the original five-trade proposal for the Phase II project would not be pursued; and
- the Administration was reviewing other options of developing the Phase II site for wholesale market purpose taking into account the current economic environment and land demand, the traders' concerns, as well as the need for reprovisioning of individual wholesale markets. The Administration would keep the Panel informed of its plan.

20. The Committee wishes to be kept informed of the progress of:

- the development of the CSWWMC Phase II project; and
- exploring the possibility of maximising the utilisation of the Western Wholesale Food Market.

21. **Departmental quarters for the disciplined services** (29 - 31 of Part IV of P.A.C. Report No. 37). The Committee was informed that:

Police leased quarters

- the Police had reduced its leased quarters from 24 to 16 in end-September 2002. They would release another unit upon refurbishment of the replacement quarter;

Criteria for the allocation of departmental quarters (DQs)

- the Government Property Agency (GPA) was addressing the comments of bureaux and departments on the revised Accommodation Regulations (ARs); and

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Review of the grading of DQs

- following briefing of the staff side on the outcome of the grading review, the GPA implemented the new grades with effect from 1 August 2002.

Further developments

22. The Committee asked whether the de-leasing of leased DQs of the Police and the proposed revision to the ARs would result in the return of DQs to the GPA and, if so, how the returned DQs would be disposed of.

23. The **Government Property Administrator** responded, vide her letter of 9 January 2003 in *Appendix 6*, that:

- as at 1 November 2002, officer grade DQs of the Police stood at 586 whilst the demand was 693, resulting in a shortfall of 107. As such, the remaining 15 leased quarters out of the original 95 would only be de-leased when the provision of owned replacements so permitted. Moreover, de-leasing would not result in the return of DQs to the GPA; and
- in consultation with concerned departments and bureaux, proposals had been formulated to separately define quarters provided for specific policy purposes and those provided to meet operational requirements and to tighten the definition, designation, allocation and monitoring of the latter. Comments from bureaux/departments on the proposed revision had been addressed and the Administration was working on promulgating the revised ARs as soon as possible. However, the revision of ARs in this respect would not result in quarters being found surplus to requirements. The overall position as regards DQs in the disciplined services as at 1 November 2002 was that the supply of DQs stood at 21,908, whilst the demand was 25,935. There was an overall shortfall of over 4,000 units.

24. The Committee urges the Administration to expedite action to conclude the outstanding issue regarding the criteria for the allocation of departmental quarters as soon as possible.

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25. **Monitoring of charities: fund-raising and tax allowances** (32 - 33 of Part IV of P.A.C. Report No. 37). The Committee was informed that:

- the Government's aim was to strengthen administrative controls over charitable fund-raising activities with a view to enhancing their transparency and accountability. The Social Welfare Department (SWD) was considering additional administrative measures such as developing a guide on best fund-raising practices for reference by charitable organisations. When this was in place, SWD would consider setting up, on a voluntary basis, a public register of fund-raising organisations adopting such best practices for reference by prospective donors; and
- SWD was also working with the Hong Kong Society of Accountants to prepare a practice note on the auditing of accounts of charitable fund-raising activities other than flag days.

26. The Committee wishes to be kept informed of further development on this subject.

27. **Urban Council public markets** (36 - 37 of Part IV of P.A.C. Report No. 37). The Committee was informed that the Administration would determine the actual sale date of the Central Market site having regard to various relevant factors, including the time required for preparing the site for sale after the stallholders had moved out.

28. The Committee wishes to be kept informed of the progress of the proposed sale of the Central Market site.

29. **Relocation of the General Post Office** (38 - 39 of Part IV of P.A.C. Report No. 37). The Committee was informed that the Administration considered that, with the inclusion of the General Post Office site as part of the Comprehensive Development Area (CDA) on the approved Central District (Extension) Outline Zoning Plan, the relocation did not need to be completed before 2009-10 at the earliest to dovetail with the development timetable for the CDA.

30. The Committee wishes to be kept informed of further development on this subject.

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31. **Recoverability of the outstanding advances to the United Nations High Commissioner for Refugees** (40 - 41 of Part IV of P.A.C. Report No. 37). The Committee was informed that as at 30 September 2002, the amount of the outstanding advances to the United Nations High Commissioner for Refugees (UNHCR) remained at \$1,162 million. The Administration had continued to seek early repayment of the outstanding advances from the UNHCR. In June 2002, the Chief Secretary for Administration met the UNHCR's Regional Representative for China and Mongolia when the Representative visited Hong Kong, and reiterated that Hong Kong community still expected recovery of the outstanding advances. The Administration would continue to pursue early repayment of the outstanding advances.

32. The Committee wishes to be kept informed of the results of the action taken by the Administration in:

- pressing the UNHCR to fully repay as soon as possible the outstanding advances to the Government of the Hong Kong Special Administrative Region (HKSAR); and
- making direct appeals to donor countries for contributions to the UNHCR earmarked for repaying the Government of the HKSAR the outstanding advances.

33. **Footbridge connections between five commercial buildings in the Central District** (42 - 46 of Part IV of P.A.C. Report No. 37). The Committee was informed that the owners of Buildings I and II were discussing the construction of Footbridge A. They were considering the footbridge alignment and the connection point. The Lands Department was liaising with both parties and providing assistance as necessary. When the owners had reached agreement on the alignment of the proposed footbridge, they would proceed with the detailed design for the footbridge.

34. The Committee wishes to be kept informed of the progress of the negotiation between the owners of the Building I and II sites for the provision of Footbridge A.

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35. **The use of energy-efficient air-conditioning systems in Hong Kong** (49 - 55 of Part IV of P.A.C. Report No. 37). The Committee was informed that:

- the consultant would complete the study for the implementation of District Cooling Scheme in Wanchai and Causeway Bay by mid-2003. The consultancy studies for the implementation of District Cooling Scheme in South East Kowloon Development and for the territory-wide implementation of water-cooled air-conditioning system (WACS) were near completion. The Administration would consider the recommendations of the final reports of these studies’;
- the Administration introduced a pilot scheme in 2000 to allow the use of fresh water in evaporative cooling to improve the energy efficiencies of air-conditioning systems of non-domestic buildings. The Administration had further expanded the scheme since June 2002 to cover 28 areas. The Administration had received 13 applications and had approved in principle 12 of them, covering about 386,000 square metres of floor area. The estimated annual savings in electricity would be about 4.2 million kilowatt-hours. Three projects had been commissioned;
- the Electrical and Mechanical Services Department (EMSD) had been inspecting the existing 12,000 cooling towers and would complete the work in October 2002. The EMSD inspected the operating conditions of the cooling towers and collected water samples for testing. For those in poor conditions, EMSD advised the owners of ways to rectify them. The EMSD would, in end-2002, review the conditions of those cooling towers found to be in poor conditions to ensure that their owners had taken necessary improvement actions;
- the Buildings Department (BD) started in September 2001 another large-scale clearance exercise for the removal of potentially dangerous and unauthorised appendages, including cooling towers supporting structures, on the external walls of more than 1,500 buildings against the original target of 1,000 buildings. The exercise was on schedule. The BD had removed about 270 cooling towers supporting structures. The BD would prosecute defaulters for non-compliance with removal orders after the necessary warning. The BD had also started the next round of clearance operations targeting at more than 1,500 buildings in the first quarter of 2002. It was estimated that 400 potentially dangerous cooling towers supporting structures erected outside commercial and industrial buildings would be removed; and

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- the Administration would keep the Committee informed of the findings of the three consultancy studies, the results of the pilot scheme on relaxing the use of fresh water for WACS in non-domestic developments, and the way forward for ensuring the proper design, operation and maintenance of cooling towers.

Further developments

36. The Committee asked whether the findings of the respective consultancy studies for the implementation of District Cooling Scheme in Wanchai and Causeway Bay and in South East Kowloon Development would be taken into consideration in designing the air-conditioning systems in the Tamar Development Project which covered the design and construction of, inter alia, the Central Government Complex and the Legislative Council Complex.

37. In response, the **Director of Electrical and Mechanical Services** advised, vide his letter of 9 January 2003 in *Appendix 7*, that

- the consultancy study for the implementation of a District Cooling Scheme for South East Kowloon Development had just been substantially completed and the findings were presented to the LegCo's Panel on Environmental Affairs on 20 December 2002. The consultancy study in respect of Wanchai and Causeway Bay districts was still in progress. The Tamar Development Project, however, lied outside the study areas of these two consultancy studies; and
- air-conditioning to the Central Government Complex, the Legislative Council Complex, and the ancillary building blocks would be served by chilled water generated from a centralised chiller plant using seawater cooling and distributed through a pipe network. The air-conditioning system design, technically, resembled that of a district cooling system.

38. The Committee wishes to be kept informed of further development on this subject.

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39. **Administration of allowances in the civil service** (61 - 62 of Part IV of P.A.C. Report No. 37). The Committee was informed that:

Policy and review mechanism

- taking into account the views obtained from the consultation exercise on the recommendations of the Standing Commission on Civil Service Salaries and Conditions of Service and the Standing Committee on Disciplined Services Salaries and Conditions of Service regarding job-related allowances payable to civilian staff and disciplined services staff respectively, the Civil Service Bureau (CSB) had drawn up specific proposals on the way forward. The CSB issued a consultation note to staff representatives and departmental management on 12 September 2002 to seek their views on the proposed way forward. The consultation ended in early October 2002. The CSB would take forward the review in the light of any further comments received; and

Duty mileage allowance

- the CSB was consulting the staff side on proposed improvements to the current mechanism for the determination and revision from time to time of the duty mileage allowance rates, as well as the priority of methods of conveyance for duty travel. In the light of the feedback from the staff side, the CSB would finalise the proposal and seek the Finance Committee's approval of the new mechanism for determining and revising duty mileage allowance rates.

40. The Committee wishes to be kept informed of further development on this subject.

41. **Water purchased from Guangdong Province** (65 - 67 of Part IV of P.A.C. Report No. 37). The Committee was informed that:

Further efforts to incorporate more favourable terms in future water supply agreements, including medium to long-term flexible supply arrangements

- during the period from January to September 2002, the Guangdong Authority continued with the flexible water supply arrangement and the Administration had achieved savings of about HK\$6.8 million of pumping costs through reduced delivery of Dongjiang water to impounding reservoirs. The reservoir storage at the end of September 2002 was at a healthy level. The

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Administration would continue to monitor the reservoir storage level to ensure a healthy supply position at all times;

- meanwhile, the Administration would continue to negotiate with the Guangdong Authority for medium and long-term flexible supply arrangements while striving for more favourable terms in future agreements;

The progress of the measures taken to ensure that the quality of water supplied to Hong Kong meets the 1988 Environmental Quality Standard for Surface Water

- the quality of Dongjiang water at Taiyuan Pumping Station continued to comply with the Environmental Quality Standard for Surface Water, Type II standard of GB3838-88. The progress of construction of the closed aqueduct had been good. The first stage of the project (the section from Taiyuan to Tangxia), which would reduce over 50% of the enroute pollution, was scheduled for completion by the end of 2002 for commissioning in early 2003. The whole project was on schedule for commissioning by end-2003;

The outcome of the consultancy study on alternative sources of water supply

- the feasibility studies on alternative sources of water supply concluded that Dongjiang water remained the most cost-attractive option under the present circumstance. The Administration would keep in view the development and cost trend of desalination, the second most cost-attractive option, while continuing its efforts to negotiate for a reasonably-priced and quality supply of Dongjiang water;

The progress of action plans formulated to improve the quality of Dongjiang water at the Joint Working Group on Sustainable Development and Environmental Protection

- the Joint Working Group on Sustainable Development and Environmental Protection and the Dongjiang Water Quality Protection Special Panel met respectively in April and August 2002. At the meetings, there were exchanges of further views on issues concerning protection of the quality of Dongjiang water supply. The Guangdong Authority continued to report that the two major water quality improvement schemes entitled “Guangdong Green Water Improvement Scheme” and “Comprehensive Wastewater Management Scheme for the Catchment of Shima River” were in good progress. The items of work under the former scheme were targeted to strengthen the protection of Dongjiang water quality. The latter scheme was

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aimed at reducing the pollution loading to Shima River, and would effectively improve the quality of Dongjiang water supply to Hong Kong before the full commissioning of the closed aqueduct; and

- the Guangdong Authority continued to provide the Water Supplies Department (WSD) with the Dongjiang water quality data near Taiyuan Pumping Station for annual publication at the WSD's web site. The last publication in April 2002 demonstrated that the water quality in 2001 continued to comply with the Type II standard of GB3838-88. The Administration would continue to liaise with the Guangdong Authority for the release of Dongjiang water quality data, and to monitor closely Dongjiang water quality at the reception point of Muk Wu Pumping Station.

42. The Committee wishes to be kept informed of:

- the Administration's further efforts to negotiate with the Guangdong Authority for medium and long-term flexible supply arrangements while striving for more favourable terms in future water supply agreements;
- the progress of the measures taken, including the commissioning of the closed aqueduct and its critical sections, to ensure the quality of water supplied to Hong Kong meets the 1988 Environmental Quality Standard for Surface Water;
- the actions taken by the Joint Working Group on Sustainable Development and Environmental Protection and the Dongjiang Water Quality Protection Special Panel to closely monitor the quality of the Dongjiang water and discuss further improvement measures; and
- the monitoring actions taken by the Administration with regard to the quality of Dongjiang water received at the Hong Kong's reception point of Muk Wu Pumping Station.

43. **Interdiction of government officers** (70 - 71 of Part IV of P.A.C. Report No. 37). The Committee was informed that:

Profile and duration of interdiction cases

- in 2000-01 and 2001-02, the Administration concluded 231 disciplinary cases which involved interdiction. Staff of the disciplined services accounted for over 70% of these cases. Most of them arose as a result of criminal

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proceedings started by the Police Force or the Independent Commission Against Corruption. The time spent on such proceedings was beyond the disciplinary authority's control. For the 231 cases, the Administration took, on average, about 9.5 months to complete the related disciplinary proceedings;

- since the inception of the Secretariat on Civil Service Discipline (SCSD — which centrally processes disciplinary cases under the Public Service (Administration) Order using streamlined procedures) in April 2000, the processing time for disciplinary cases had progressively improved. In 2001-02, the SCSD completed action on 112 cases. Over 80% of them could be disposed of within 12 months;

Review of the disciplinary procedures practised in the Police Force

- to enhance the professionalism of staff in handling disciplinary proceedings, the Police Force would conduct further training on an annual basis;
- the steering group formed to review the Police Force's discipline system was examining the short, medium and long-term improvements to the discipline system. The Administration would keep the Committee informed of the recommendations of the review in due course; and

Stoppage of salary on the date of conviction

- the Administration had included the issue of amending section 37(4) of the Police Force Ordinance to stop the salary of an interdicted officer with effect from the date of conviction (as opposed to the following day) in the review of the Police Force's discipline system. The Administration would keep the Committee informed of the outcome in due course.

44. The Committee wishes to be kept informed of further development on this subject.

45. **Employees Retraining Scheme** (72 - 73 of Part IV of P.A.C. Report No. 37). The Committee was informed that all training bodies which conducted retraining courses under the Employees Retraining Scheme submitted to the Employees Retraining Board (ERB) annual returns on measures taken to ensure the structural and fire safety of each and every training venue. The ERB staff also conducted regularly management audit visits to retraining centres to inspect safety measures among other things.

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Further developments

46. The Committee noted that the Education and Manpower Bureau and the ERB had agreed on an additional performance indicator of 60% retention rate for six months after placement of retrainees and since April 2001, the ERB had begun conducting regular quarterly job retention surveys. The Committee enquired about the results of the job retention surveys conducted since April 2001 and whether the ERB had achieved the performance indicator of 60% retention rate for six months after placement of retrainees.

47. The **Acting Executive Director, ERB**, advised, vide his letter of 30 December 2002 in *Appendix 8*, that:

- the ERB had conducted job retention surveys since April 2001. In each survey, the sample of graduate retrainees taken was those who had completed a full-time day course during the half month period nine months before the survey and subsequently been placed into employment. A time lapse of nine months was allowed because the post-course placement period was three months. Also, the number of graduates in half a month (and not a full month or longer) was considered representative enough, bearing in mind the cost of the survey. As surveys were conducted four times a year, the total number of full-time graduates covered was those of two months, or one-sixth of the total; and
- seven surveys had been conducted as of December 2002. In all the seven surveys, the ERB had achieved the performance indicator of 60% retention rate for six months after placement of retrainees. Some percentages even stood over 70%.

48. The Committee wishes to be kept informed of the results of the job retention surveys conducted by the ERB.

49. **Construction of two bridges** (Chapter 1 of Part VII of P.A.C. Report No. 37). The Committee was informed that:

- the Administration had fully taken on board the Director of Audit's recommendations. The Highways Department had amended the Structures Design Manual and promulgated it in April 2002. The Highways Department had also finalised the reference material on design-and-build contracts in August 2002; and

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- concerning the disclosure of terms of dispute settlement, the Administration had consulted the industry on the set of draft contract provisions to enable the Administration to disclose terms of dispute settlement to the Committee under specific conditions. The industry was not supportive of the proposal. Having considered the comments received, the Administration would consult the industry again in early October 2002 on a revised proposal.

Further developments

50. The Committee considers that it is of utmost importance to amend contract provisions on confidentiality of the terms of dispute settlement to enable the Administration to disclose such information to the Committee and finds the present progress of the matter unacceptable. In this connection, the Committee asked:

- how the construction industry was consulted and whether any consultation(s) paper had been issued;
- the industry's reasons for not supporting the proposal; and
- the result of the consultation conducted in October 2002 on the revised proposal.

51. The **Secretary for the Environment, Transport and Works** responded, vide the letter of 3 January 2003 in **Appendix 9**, that:

- a circulation letter with proposed amendments to the standard forms of contract and consultancy agreement used by the Government was issued on 7 May 2002 to trade associations of the construction industry. The proposed amendments involved modifications to the Government's Mediation Rules and the Arbitration Rules promulgated by the Hong Kong International Arbitration Centre. By introducing those amendments, the Government would be able to disclose terms of dispute settlement to the Legislative Council on condition that the contractor/consultant might request the Government to disclose commercially sensitive information on a confidential basis;
- the contractor associations vigorously objected to the proposal. The construction industry considered that the proposal to disclose terms of arbitration awards and mediation settlements with commercially sensitive information was contrary to the fundamental principle that the two processes

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were conducted privately and should remain private and confidential. The industry insisted that disclosure could take place only with the consent of the contracting parties. The consultant association categorically objected to the proposal on similar grounds. It raised the concern that the proposal would have a serious impact on the ability of consulting firms to obtain professional indemnity insurance. It was also concerned about the possibility of sensitive information being published and abused, jeopardising the business status of the concerned consulting firms. It considered that the proposal would also lead to higher construction cost;

- the Hong Kong International Arbitration Centre had also written to the Government on its own accord. The Centre was strongly of the view that the proposal would undermine the fundamentals of the two dispute resolution mechanisms, and destroy the confidence the construction industry had had in adopting the process in resolving dispute with the Government; and
- the second round of consultation originally scheduled for October 2002 was deferred due to delay in replies from trade associations on the initial proposal. A revised proposal was issued on 2 December 2002. A requirement for the Government to obtain consent from the other contracting party had been included if disclosure was made within six months of settlement, beyond which the contractor/consultant might still request that sensitive information should be disclosed on a confidential basis. As the proposed amendments changed the existing practice which had been in use for more than 20 years, the Administration considered it prudent to allow sufficient time for the industry to fully express their views and concern. The Administration had not yet received responses to the second round of consultation from the trade associations except the contractor association which had already indicated their objection to the revised proposal.

52. The Committee wishes to be kept informed of the further developments of the issue concerning the disclosure of terms of dispute settlement.

53. **Follow-up review on control of utility openings** (Chapter 2 of Part VII of P.A.C. Report No. 37). The Committee was informed that:

- the Director of Highways established a Control of Road Opening Monitoring Group (CROMG) in February 2002. He personally chaired the CROMG to monitor the progress of the follow-up actions as recommended by the Committee;

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Proposed legislative amendments to the Land (Miscellaneous Provisions) Ordinance

- the Land (Miscellaneous Provisions) (Amendment) Bill 2002 was being examined by the relevant Bills Committee of the Legislative Council;

Implementation of audit inspection procedures

- the Highways Department (HyD) had set up dedicated teams for carrying out audit inspections in all regional offices. A systematic set of training courses and a quality control system on audit inspections were now in place. The Department had established a system for periodic review of the Guidance Notes on Audit Inspection of Utility Sites;

Frequency of audit inspections

- with the establishment of the dedicated audit inspection teams in all regional offices, the HyD had now raised audit inspection frequency to around one inspection per eight days from one inspection per ten days. With additional staff resources allocated, the HyD expected to achieve a target frequency of one inspection per seven days by end-2003;

Compliance with advance notification requirement

- following regular discussions with the utility undertakings (UUs) in both the Utilities Technical Liaison Committee and the Joint Utilities Policy Group (JUPG), the UUs had markedly improved compliance with the requirement of two-day advance notification before commencement of street excavation. The compliance rate had increased drastically to above 83% in the first half of 2002, as compared to 47% in the same period of 2001 and the overall rate of 60% in the year 2001;

Statistics of damage to underground utilities

- the HyD had recommended to UUs tools such as warning letters and performance reports, which might affect the contractors' chance in tenders, to control their contractors' performance. The HyD had also recommended UUs to train up their contractors in using advanced detection equipment to locate underground utilities. The number of damage incidents decreased to 196 in the first half of 2002, as compared to 236 in the same period in 2001 and a total of 457 in the year 2001;

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Streamlined excavation permit application procedures

- the HyD had been working closely with other relevant government departments with a view to streamlining the EP application procedures to ensure that UUs could start work on site once an excavation permit (EP) was issued. The Hong Kong Region started to implement the streamlined EP application process on 15 May 2002. The Kowloon and New Territories Regions would soon follow;

Guidelines on the accuracy of utility records

- a working group formed under the JUPG had finalised the guidelines on the accuracy of utility records that served as the minimum standard for UUs to keep their as-built utility records. The HyD had promulgated the guidelines for implementation with effect from 1 June 2002;

Implementation of an Electronic Mark Plant Circulation

- the Electronic Mark Plant Circulation Stage 1 System was a computer system that facilitated the circulation of electronic utility records. Subject to satisfactory completion of the system acceptance tests, the HyD would roll out the system in October 2002; and

Study on the feasibility of implementing common utility enclosures

- the Administration commissioned, in March 2002, a consultancy study on the feasibility of implementing common utility tunnels, ducts and chambers, collectively called Common Utility Enclosures. The consultant would complete the study by December 2002.

54. The Committee wishes to be kept informed of further development on this subject.

55. **Review of the Hong Kong Sports Development Board** (Chapter 3 of Part VII of P.A.C. Report No. 37). The Committee was informed that:

Remuneration packages of Hong Kong Sports Development Board (SDB) staff

- the Home Affairs Bureau (HAB) had reviewed the remuneration packages of the SDB staff in consultation with the Financial Services and the Treasury

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Bureau and the Civil Service Bureau. Pending the outcome of a related review on remuneration package of public organisations, the HAB would finalise the conclusions and discuss them with the SDB with a view to implementing suitable measures;

Utilisation of the SDB's sports facilities

- the overall usage rate of the sports facilities of the Hong Kong Sports Institute (HKSI) in 2001-02 was 44.6%, which was 4.6% higher than the usage rate of 2000-01;
- as regards upgrading of sports facilities within the HKSI, the SDB was of the view that the Government's report on Sports Policy Review which, among other things, touched on the provision of elite training facilities, might had a bearing on the HKSI's improvement plan. For this reason, the SDB had yet to make concrete proposals on the redevelopment/upgrading of the HKSI's facilities;

Contracting out of the SDB's services

- at present, SDB had contracted out security and carpark management services. The SDB had originally drawn up plans to contract out other services by phases, namely cleaning services, horticultural services, routine building maintenance services and Sports Residence operations in 2002-03 and 2003-04. In August 2002, the SDB decided to suspend the contracting out of the HKSI's general cleaning services because of the uncertainty about the future of the SDB;

Management of Sports House and grants to National Sports Associations (NSAs)

- the SDB had proposed new guidelines governing the funding of staffing for NSAs. The SDB had consulted the Sports Federation & Olympic Committee of Hong Kong, China (SF&OC) and NSAs on the above proposals and incorporated these proposals into its proposed funding policy as appropriate. The SDB was of the view that the Government's report on Sports Policy Review which, among other things, touched on the funding mechanism, might had a bearing on the SDB's future funding policy. For this reason, the SDB had decided to put on hold the implementation of the new measures pending the outcome of the Sports Policy Review;

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- having reviewed the NSAs' objections to the administration pooling proposal and the current pool service provided to NSAs at the Sports House, the management of SDB decided not to implement the pooling of administrative/clerical staff at the Sports House;
- the SDB would expand the scope of its random internal audits to include a review of the SDB's activities and spot checks on the use of grants by NSAs; and
- the HAB would continue to conduct regular inspections of the Sports House's books, accounts and other accounting records to ensure that the Government's requirements specified in the tenancy agreement of the Sports House were complied with.

Further developments

56. In respect of the HAB's review of the remuneration packages of SDB staff, the Committee asked when the conclusions of the review would be available and whether they would be announced. The **Secretary for Home Affairs** responded, vide his letter of 4 January 2003 in *Appendix 10*, that the HAB had reviewed the remuneration packages of SDB staff in consultation with the Financial Services and Treasury Bureau and the Civil Service Bureau. However, the timeframe for the conclusion of the HAB's review would depend on the outcome of a related review on remuneration package of public organisations being conducted by the Director of Administration. The HAB would inform the Committee of the findings and recommendations of the HAB's review as soon as it was finalised, hopefully in the first quarter of 2003.

57. The Committee wishes to be kept informed of:

- the outcome of the HAB's review of the terms and conditions of the service of SDB staff;
- the Government's strategic policy for future sports development in Hong Kong after the public consultation;
- the SDB's decision on the redevelopment/upgrading proposals of the HKSI's sports facilities;
- the long-term plan to upgrade and/or redevelop the SDB's sports facilities;
- the outcome of the contracting-out exercise; and

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- the progress of implementation of the recommendations on the management of the Sports House and grants to NSAs.

58. **Administration of the Quality Education Fund** (Chapter 5 of Part VII of P.A.C. Report No. 37). The Committee was informed that:

Overall developments

- in 2002, apart from internal and regular reviews to improve the Quality Education Fund (QEF) operation, the QEF Steering Committee had launched three reviews which, together, would cover all salient aspects of the Fund's operation. To enhance the objectivity of the reviews, the QEF Steering Committee had commissioned experts to conduct them. The reviews were:
 - (a) a review of the entirety of the QEF processes, from invitation of applications to the monitoring of approved projects, conducted by the Management Services Agency (MSA);
 - (b) a perception survey of all QEF applicants (irrespective of whether they were successful in their applications) on different aspects of the Fund's operation, conducted by a private sector firm specialised in carrying out opinion surveys; and
 - (c) the development of performance indicators and evaluation methodology by Melbourne University Private which comprised internationally renowned educational professionals on assessment and evaluation issues.
- the three reviews had included in their scope, among other topics, the need to take another look at the costs and benefits of the various types of projects funded in the past, the need for better coordination among various education-related sources of funding, the need to improve the assessment and monitoring processes as well as the need to develop performance indicators and evaluation methodology for approved projects;
- both the MSA study and the QEF survey had just been completed. The QEF Steering Committee was now considering the findings. The consultancy study on performance indicators and evaluation methodology would take a few more weeks. The Administration would keep the Legislative Council (LegCo) Panel on Education posted of the Steering Committee's review of the operation and strategy of the QEF;

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Monitoring research projects of tertiary institutions and large-scale Education Department projects

- the Administration would continue to monitor closely the projects concerned as an on-going activity of the QEF;

Notification to the LegCo of grants exceeding \$10 million

- in the context of deliberating on the future funding strategy of the QEF upon the completion of the three reviews above, the QEF Steering Committee would also consider the mechanism for reporting grants exceeding \$10 million to the LegCo Panel on Education;

Development of dissemination strategy and improvement of dissemination practices

- the working group formed to review the existing dissemination practices had recommended a number of measures to enhance and improve QEF dissemination activities. The improvement measures endorsed by the QEF Steering Committee were being implemented. An example was the organisation of workshops and seminars on a thematic basis to enhance appeal to target participants and to enhance the effectiveness of the experience sharing. Other improvements in the pipeline included the holding of larger-scale conferences on a variety of educational topics to facilitate coordination in the promotion of good practices with other educational bodies, and the upgrading of QEF websites to facilitate access by the school community and the public to QEF data;
- the Melbourne University Private would advise the QEF Steering Committee on the strategy for effective dissemination of good practices;

Coordination between grants and investment programmes

- in early 2002, the Administration had introduced a reporting system to strengthen the coordination between investment and funding aspects of the QEF. The Administration made the first report on the financial position of the Fund to the QEF Steering Committee on 30 January 2002 and the second report on 7 August 2002. The reporting was on a half-yearly basis; and

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Outstanding Teachers Award (OTA)

- subject to the final deliberation of the Advisory Committee on Teacher Education and Qualification on their proposal to award accomplished teachers, the QEF Steering Committee would make a decision on the way forward for the OTA.

Further developments

59. In respect of the mechanism for the Administration to report QEF grants exceeding \$10 million to the LegCo Panel on Education, the Committee asked whether the Administration had finalised its consideration of the matter.

60. The **Secretary for Education and Manpower** responded, vide the letter of 9 January 2003 in *Appendix 11*, that:

- for the sixth call for applications which was underway, the QEF had adopted a number of measures based on the recommendations of the reviews conducted on its operation in 2002. Amongst others was the setting of a maximum grant of \$0.5 million each for approved projects of general nature, and \$5 million each for projects of exceptional merits; and
- given the above policy, it was not envisaged that there would be grants exceeding \$10 million per project in the sixth call for applications. However, should there be any change in policy whereby QEF grants exceeded \$10 million per project in the future, the Administration would draw them to the attention of the LegCo Panel on Education.

61. The Committee wishes to be kept informed of further development on this subject.

62. **Radio Television Hong Kong: Performance and resource management** (Chapter 9 of Part VII of P.A.C. Report No. 37). The Committee was informed that:

Performance measurement and reporting

- following the completion of the consultancy study on key performance indicators (KPIs) for Radio Television Hong Kong (RTHK), the Department

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had formed three internal working groups to develop and recommend additional KPIs including those concerning staff productivity. The RTHK management was considering the working groups' preliminary reports completed in August 2002;

- in developing KPIs for RTHK, the working groups had made reference to the experience of international broadcasters. In particular, they would explore the development of more qualitative measurement for RTHK's Radio Service for the purpose of better reflecting its role as a public service broadcaster. RTHK aimed to set targets and standards of performance when introducing new KPIs;
- for the purpose of monitoring RTHK's prime and fringe time programme viewership on television, RTHK was negotiating with ACNielsen, an independent research company, to subscribe for public viewership information;

Budgetary control

- to enhance resource management at the micro level, RTHK was in the process of decentralising the budgetary control responsibility in the Radio Division down to Section/Unit Head level. In parallel, the Department was also improving its costing system to provide more up-to-date cost information to these budget controllers. In addition, the overall budget and actual spending data for each radio channel were consolidated to facilitate budgetary monitoring on a channel basis by Channel Heads;

Procurement of services

- RTHK was studying the development of a computerised procurement system. Its Supplies Officer was meeting departmental users on a regular basis to remind them to comply with Government procurement regulations. In addition, RTHK had reminded its Section Heads to immediately rectify any irregularities detected;
- since March 2002, RTHK's Art Services Section had implemented a marking scheme for the procurement of scenic services;

Management of overtime work

- RTHK had carried out follow-up investigation after the Audit Commission's inspection in 2001. It had found one officer in the Scenic Services Unit, in addition to six previously identified, who had made improper claims for overtime allowance. RTHK had recovered the overpayment promptly;

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- on the advice of the Civil Service Bureau (CSB), RTHK was instituting formal disciplinary action against the seven officers. Meanwhile, the CSB was looking into any related responsibility of the supervisors of these seven officers;

Outsourcing opportunities

- one of the above-mentioned working groups had reviewed and recommended long term manpower plan and strategies for RTHK. The RTHK management was considering the working group's preliminary report completed in August 2002 and a long-term commissioning strategy;

Educational Television (ETV) service for primary and secondary schools

- to facilitate the flexible use of ETV resources, the Education Department (ED) was converting the secondary school ETV programmes to digitised format on video compact discs (VCDs). As at end-August 2002, 109 secondary school programmes were provided to schools on VCDs. Another batch of about 100 programmes in VCD format would be provided to secondary schools in September 2003. By that time, each secondary school would have four copies of the full set of ETV resources (programmes and supplementary materials) in digitised format for use by teachers and pupils. These resources could be viewed directly on a television screen or incorporated into other teaching materials to be delivered using a computer;
- the ED had digitised the full stock of 447 primary school ETV programmes. All primary schools had five copies of the full collection on VCDs since June 2002. Teachers might use the resources to support teaching in the classroom and pupils might borrow them to reinforce learning at home;

Outsourcing of school ETV production

- at present, RTHK had outsourced 21% of its school ETV production work. RTHK had agreed with the ED to transfer 5% of the current production budget to the ED for further outsourcing school ETV production in 2003-04, with a view to achieving the target of 25% outsourcing. With the resources, the ED planned to produce nine programmes. RTHK would reduce its production target by 5% to 166 programmes. The ED would undertake the administrative work relating to programme outsourcing and monitor the quality of the outsourced production. The ED anticipated some savings upon outsourcing, and would deploy the resources on producing programmes for pre-primary schools and on developing multi-media learning packages for pupils; and

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Monitoring school ETV service

- the Standing Committee on the Development of the ETV Service was formed in January 2002. Its focus of work for 2002 and 2003 was to review the ETV service. The committee had met three times so far and the key items discussed included:
 - (a) the background and limitations of the ETV service;
 - (b) performance indicators;
 - (c) the future direction of the ETV service;
 - (d) the views of primary school teachers on the ETV service;
 - (e) migration to multimedia and outsourcing strategy; and
 - (f) production of ETV programmes.

The Administration expected to complete the review of the ETV service by October 2003.

63. The Committee wishes to be kept informed of further development on this subject.

64. **Provision of legal aid services** (Chapter 10 of Part VII of P.A.C. Report No. 37).
The Committee was informed that:

Some measures to contain the costs of legal aid

- the Judiciary would submit the final report on the Pilot Scheme on Family Mediation to the Committee in August 2003. Based on the findings and final evaluation of the Pilot Scheme, the Administration would explore the viability of requiring applicants in matrimonial cases to use the family mediation service to resolve disputes before receiving legal aid. The Director of Administration (D of Adm) would consult the Legislative Council on the way forward in due course;

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Access to information on legal aid files

- since the end of March 2002, the Director of Legal Aid had had a standing arrangement for seeking consent from legal aid applicants at times of application, to permit access of their case files to the Director of Audit (D of A), or his representative, for the purpose of conducting audits in future. The new arrangement had been operating smoothly;

Means test

- since March 2002, the Legal Aid Department (LAD) had organised a total of six means testing workshops for those staff involved in such work. They included law clerks and professional officers at both the basic as well as senior ranks. The LAD would hold further workshops and experience sharing sessions to maintain the standard and consistency of means testing work among staff;
- in accordance with the recommendation of the D of A, the LAD had been selecting cases for conducting home visits on a random basis since March 2002. Up to the end of July 2002, the LAD had carried out 54 home visits in respect of both doubtful cases and cases selected on a random basis;

Documentation of merits testing

- the D of A had recommended that, in cases where the estimated legal aid costs were significant, the justifications for the grant of legal aid should be properly documented. In this regard, the LAD had used new checklists to enhance proper documentation of such case details since April 2002. The new arrangement had been operating smoothly; and

Performance indicators and overarching strategic planning

- the LAD had, in consultation with the D of Adm, formulated a strategic plan and included it in the LAD's 2001 Annual Report. The LAD aimed to update its strategic plan in the 2002 Annual Report and the Controlling Officer's Report in the 2003-04 Estimates of Expenditure. Discussions on new efficiency and effectiveness performance indicators were underway.

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65. The Committee wishes to be kept informed of the progress made, in particular on:
- the findings and final evaluation of the Pilot Scheme on Family Mediation, and the viability of requiring applicants in matrimonial cases to use the family mediation service to resolve disputes before receiving legal aid; and
 - the development of the new efficiency and effectiveness performance indicators.
66. **Management of medical equipment** (Chapter 11 of Part VII of P.A.C. Report No. 37). The Committee was informed that:

Review of the scale of provision (SOP) for commonly-used medical equipment

- the Hospital Authority (HA) had commenced reviewing the SOP for commonly-used medical equipment since September 2002. It aimed to complete the review by March 2003. The HA had separately established dedicated sets of criteria for the provision of different types of high-value medical equipment (such as computerised tomography scanner, magnetic resonance imaging scanner and linear accelerator) for benchmarking purposes. So far, the HA had developed 30 sets of criteria for 30 types of such equipment. The HA would continue to develop more indicators to assess the provision and rationalise the distribution of high-value medical equipment;

Procurement of medical equipment

- the Corporate Procurement and Supplies Management Unit (CPSMU) of the HA had stepped up the pace of centralised bulk contracting services. During the first three quarters of 2002, it had issued over 30 bulk tenders for medical equipment, instrument and hospital furniture with an estimated aggregate value of \$120 million;
- the HA had centralised procurement in the Hong Kong East, Kowloon East, New Territories East and New Territories West Clusters. The clusters procurement units assumed the integrated functions of supplies logistics, vendor performance monitoring, inventory control and non-stock purchase. The HA would roll out cluster procurement functions to the remaining three clusters, namely the Hong Kong West, Kowloon Central and Kowloon West Clusters in the fourth quarter of 2002;

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- the CPSMU had completed the review of the HA's Procurement and Materials Management Manual. Tender procedures had been standardised and procurement guidelines updated. The Manual would be submitted to the Finance Committee of the HA for approval in November 2002. The HA planned to implement the standardised tender procedures and the revised guidelines on procurement in all the HA hospitals in the fourth quarter of 2002;
- the HA was discussing with the Government Supplies Department the feasibility of the HA taking up the tendering functions;

Utilisation of medical equipment

- the computerised inventory data of the Queen Elizabeth Hospital (QEH) was being migrated to the HA-wide Asset Management System (AMS). The QEH would implement the corporate-wide AMS by the fourth quarter of 2002 as scheduled;
- the HA was enhancing its AMS to generate exception reports with benchmark information on under-utilised major medical equipment. The enhancement was scheduled for completion by the fourth quarter of 2002. The enhanced AMS would facilitate the cluster management in strengthening the monitoring of the utilisation of major and selected medical equipment, and the planning of acquisition of major equipment;

Maintenance of medical equipment

- the HA was conducting a review of the variations in the maintenance costs of X-ray equipment among the HA hospitals which would be completed by the fourth quarter of 2002. As for the review of maintenance service of non X-ray equipment, the Electrical and Mechanical Services Trading Fund, the HA's maintenance agent, was providing the HA with detailed maintenance cost data. The HA planned to complete the review on non X-ray equipment by the end of 2002;
- the HA Head Office had coordinated the procurement of bulk contracts of X-ray equipment maintenance services for all the HA hospitals since early 2002. So far, the HA had awarded six bulk contracts with a total aggregate contract value of approximately \$130 million. The HA had issued a bulk tender for the outsourcing of the maintenance service for 6,000 pieces of non X-ray equipment in the third quarter of 2002. The HA would continue to adopt the open tender approach with a view to ensuring cost-effective procurement of maintenance services; and

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- the HA was in the process of developing a consistent set of maintenance procedures for its medical equipment by risk type. In this connection, the HA had classified all medical equipment into high-risk, medium-risk and low-risk grades based on internationally recognised standards. The HA was developing recommendations for the adoption of preventive and/or corrective maintenance support having regard to the risk level of medical equipment.

67. The Committee wishes to be kept informed of further development on this subject.

V. COMMITTEE PROCEEDINGS

Consideration of the Director of Audit's Reports tabled in the Legislative Council on 20 November 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 Reports. The Committee had therefore only selected those chapters in the Director of Audit's Report No. 39 which, in its 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 14 meetings and 9 public hearings in respect of the subjects covered in this Report. During the public hearings, the Committee heard evidence from a total of 39 witnesses, including 5 Directors of Bureau and 9 Heads of Department. The names of the witnesses are listed in *Appendix 12* to this Report. A copy of the Chairman's Introductory Remarks at the first public hearing on 2 December 2002 is in *Appendix 13*.

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 its deliberations on the relevant chapters of the Director of Audit's Reports, are set out in Chapters 1 to 7 below.

4. The audio record of the proceedings of the Committee's public hearings is available in the Library of the Legislative Council for the public to listen to.

5. **Acknowledgements** The Committee wishes to record its appreciation of the cooperative approach adopted by all the persons who were invited to give evidence. In addition, the Committee is grateful for the assistance and constructive advice given by the Secretary for Financial Services and the Treasury, the Legal Adviser and the Clerk. The Committee also wishes to thank the Director of Audit for the objective and professional manner in which he completed his Reports, and for the many services which he and his staff had rendered to the Committee throughout its deliberations.

**VI. OBSERVATIONS OF THE PUBLIC ACCOUNTS COMMITTEE
ON THE REPORT OF THE DIRECTOR OF AUDIT ON THE ACCOUNTS
OF THE GOVERNMENT OF THE HONG KONG SPECIAL ADMINISTRATIVE
REGION FOR THE YEAR ENDED 31 MARCH 2002**

The Committee noted the Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2002.

Chapter 1

Residential services for the elderly

Audit conducted a review of the economy, efficiency and effectiveness of the Government's planning, provision and monitoring of residential services for the elderly, and identified room for improvement in the following areas:

- provision of subsidised care and attention (C&A) home places;
- provision of subsidised self-care, home for the aged (HFA) and Housing for Senior Citizens (HSC) places;
- provision of subsidised nursing-home and infirmary places;
- Government's financing of subsidised residential services for the elderly;
- the Social Welfare Department's (SWD's) licensing and monitoring of residential care homes for the elderly (RCHEs);
- the SWD's monitoring of subsidised residential services for the elderly; and
- healthcare services of RCHEs.

2. The Committee held two public hearings on 6 May and 4 July 2002 to take evidence on the issues examined in the Audit Report.

Evidence taken at the public hearing on 6 May 2002

Provision of subsidised C&A home places

3. The Committee understood from paragraph 2.9 of the Audit Report that the SWD had increased the supply of subvented C&A home places in recent years. However, as shown in Table 3, as at 31 March 2001, there were more than 16,000 applicants on the waiting list, and they needed to wait for an average of 35 months for such places. In contrast, the average waiting time for admission to subsidised home places, i.e. home places provided under the bought-places schemes, was 11 months. The Committee was concerned about the significant disparity in the waiting time for admission between subvented C&A home places and subsidised C&A home places and asked about the reasons for that.

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4. In response, **Mrs Carrie LAM CHENG Yuet-ngor, Director of Social Welfare**, said that according to the latest information on the SWD's homepage, the waiting time for admission to subvented RCHEs was 34 months, whereas that for home places provided under bought-place schemes was 10 months only.

5. On the question of significant disparities in the service levels between subvented C&A home places and C&A homes places under the bought-place schemes, the Director of Social Welfare stated in paragraph 2.21 of the Audit Report that the perceived superiority of subvented C&A homes was mainly due to these homes being purpose-built and the users having a higher level of confidence in the home operators. The Committee enquired about the Administration's plans for the next ten years for increasing the supply of purpose-built RCHEs and ensuring that the level of services provided at private RCHEs was comparable to that at subvented C & A homes.

6. The **Director of Social Welfare** provided a detailed list of these planned RCHE premises vide the Annex to her letter of 23 May 2002, in **Appendix 14**. She also informed the Committee that the SWD had embarked on a major programme to secure purpose-built RCHE premises from various sources. Through competitive bidding, purpose-built government premises would be available to non-governmental organisations (NGOs) as well as private homes for operating a mix of subsidised and non-subsidised services. As at April 2002, the SWD had successfully secured such premises for a total of 6,726 places over the next ten years. A summary breakdown by source of supply was as follows:

Source of supply	Number of RCHE places
Public housing estate developments	3,555
NGO sites	771
Government's Government/Institution/Community sites	764
Urban Renewal Authority/MTR Corporation Limited/Kowloon-Canton Railway Corporation developments	646
Private developments through land sale conditions	990
Total	6,726

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7. The **Director of Social Welfare** further stated that:

- noting that public housing estate developments remained the main source of supply of purpose-built RCHEs premises, she had made an appeal to the Housing Authority to help supply such premises within public housing estates developments at suitable locations. A new funding arrangement had also been put in place to facilitate the provision of the premises with the SWD reimbursing the Housing Authority their construction cost through the Lotteries Fund;
- to further boost the supply of purpose-built RCHE premises, the Administration had devised a scheme to encourage private developers to incorporate RCHE premises in their developments. Under the proposed scheme, it would exempt eligible purpose-built RCHE premises in new private developments under lease modification, land exchange or private treaty grant from the calculation of gross floor area and assessment of premium of the development. In return, the developer would have to pay the full cost of constructing the RCHE premises, with such basic provisions as fire services installation and drainage connection, suitable for operation as a RCHE. These RCHE premises, once built, while remaining the property of the private developers, would have to be used exclusively as RCHEs. The Administration was finalising the legislative amendments needed to put the scheme in place. The supply of purpose-built RCHE premises over the next ten years reported above and in the Annex to her letter had not yet included any possible supply from this source;
- pending an increased supply of purpose-built RCHE premises, the SWD would continue to take various measures to improve the quality of private homes. These included upgrading the remaining Bought Place Scheme (BPS) places to Enhanced Bought Place Scheme (EBPS) standards, stipulating higher standards in the renewal of and purchase of additional EBPS places, and expanding training capacity for health workers and care staff working in private homes subject to the availability of resources. However, there was a need to strike a balance between imposing further requirements on the operation of private homes with a view to improving their standards and the commercial realities faced by these private homes. There was clearly a limit to how much public resources the SWD could mobilise to induce quality improvements in private homes through the Government directly purchasing places from these homes to operate as subsidised places; and

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- consumer choice would also be a powerful tool to raise standards in private homes. The SWD had commissioned the Hong Kong Association of Gerontology to undertake a two-year project to develop and establish an accreditation system for RCHEs in Hong Kong to ensure the delivery of quality care and continuous improvement through promulgation of the quality process and outcome monitoring of RCHEs.

8. The Committee noted Audit's recommendation in paragraph 2.20(b) of the Audit Report that the Director of Social Welfare, in conjunction with the Secretary for Health and Welfare¹, should take action to provide, as far as possible, a uniform level of service for all places at government subsidised C&A homes in certain aspects. The Committee enquired:

- about the timetable for, the financial implications of and the main constraint on the provision of a uniform level of service for all such places, e.g. the feasibility of raising the standards of private RCHEs in terms of minimum area per resident, qualification and number of staff and physical facilities;
- whether the implementation of measures to provide a uniform level of service would cause closure of private RCHEs and, if so, how the Government would assist such homes in meeting the requirements for higher service standards; and
- whether the Government had set up a fund to assist the operators of private RCHEs in raising their service standards and, if so, the criteria for application to the fund, the terms and conditions of the subsidy and the respective numbers of applications received by and approved by the Government in the past few years.

9. In her letter on 23 May 2002, the **Director of Social Welfare** stated that:

- the C&A services subsidised by the Government were provided through the traditional NGO homes operating on recurrent subventions from the Government, places purchased from private homes under the BPS or the EBPS and subsidised places provided in contract homes arranged through competitive bidding. With the exception of a few homes developed by NGOs with or without Government subventions, the policy intent was to put all future homes under competitive bidding. The contract homes would be

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

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subject to the same set of quality standards, output and outcome indicators and other requirements. In other words, the Administration was confident that all new RCHEs would offer a uniform level of service and be provided at a competitive cost achieved through open tendering;

- the level of service and the cost of the service were two sides of the same coin. In the case of the traditional subvented NGO homes, given the high personnel cost they carried, it would be extremely difficult to reduce their cost over a short period. Instead, the SWD had been trying to enhance their productivity through in-situ expansion or inviting them to make use of the premises to provide added services. In the case of private homes providing subsidised services, the SWD had narrowed the disparity by raising the minimum space and staff requirements for EBPS and intended to phase out all BPS places. As regards staff competency, the SWD had revamped the course for care staff and obtained additional resources for providing more training to care staff in elderly services from both the subvented and private sectors. Details of these initiatives were as follows:
 - (a) the SWD had secured resources of \$11.8 million annually to upgrade a total of 1,200 BPS places to EBPS places by 2003;
 - (b) the SWD had earmarked \$8 million to provide 2,160 multi-skilled training places for care staff by 2004-05. Of the 400 training places provided in 2001-02, there were a total of 100 trainees from the private sector; and
 - (c) the SWD had adopted a new schedule of accommodation for all new homes optimising the use of premises and narrowing difference in space standards between subvented homes and private homes;
- the Administration had no plans to resort to imposing further requirements through statutory means. Actually, it had taken the Administration and the sector as a whole over five years to bring all existing homes up to the licensing standards since the implementation of the Residential Care Homes (Elderly Persons) Ordinance. This licensing regime had helped ensure that residents in care homes received services of acceptable standards that were of benefits to them physically, emotionally and socially. The licensing scheme regulated the operation of all care homes in terms of staff requirement, space standard, building and fire safety requirement and the provision of health and care services at acceptable and minimum level. The complete licensing of all private homes in March 2001 was achieved through vigorous efforts on the part of the SWD and operators and supported by the Lotteries Fund grants to

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subvented homes for upgrading and a financial assistance scheme for private homes. Since the completion of licensing, the Administration had been pursuing various measures to further improve the standard of services. Mindful of the overall business environment, reduced affordability for non-subsidised services as a result of the economic downturn and rising unemployment, the Administration had doubts about the practicability of contemplating legislative amendments to stipulate higher space and manpower standards at this juncture. The last thing the Administration would like to see was massive closures of private homes caused by the toughened operating environment and, as a result, large numbers of elderly being displaced; and

- the Financial Assistance Scheme for private homes was introduced in 1995. It aimed at assisting those already in existence upon the implementation of the Residential Care Homes (Elderly Persons) Ordinance in complying with safety precaution, design and structural requirements as stipulated under the Ordinance. It was not confined to private homes providing subsidised services under the BPS and EBPS schemes. As a matter of fact, it was doubtful whether the existing premises occupied by private homes could be upgraded to reach the standards similar to those of subvented homes without total reprovisioning. The SWD had received a total of 233 applications from private homes under the Scheme. Grants totalling some \$20 million were made to 154 successful applications.

Phasing out of subsidised HFA places

10. According to paragraphs 3.6 and 3.7 of the Audit Report, in 1997, the Elderly Commission conducted a comprehensive assessment on the long-term demand of the elderly for housing and residential care and recommended a strategy to meet the long-term needs. In its report published in September 1998, the Elderly Commission considered that residential care services should be directed to elderly persons with genuine needs. The Commission recommended that able-bodied elderly persons and those who could take care of themselves should remain in the community.

11. Nevertheless, paragraph 3.12 of the Audit Report revealed that the SWD was still accepting applications for HFA places. As at 31 March 2001, there were nearly 6,200 elderly persons on the waiting list, and the average waiting time for admission to an HFA was 19 months. The Committee considered that if the SWD could phase out existing HFAs and provide community support services to meet the needs of the potential applicants for HFA places, huge savings could be achieved and used to subsidise new C&A home

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places. The Committee wondered why the SWD had not actively implemented the Elderly Commission's recommendation.

12. The **Director of Social Welfare** explained that:

- since the Elderly Commission had made the recommendation, the SWD, under the guidance of the Health and Welfare Bureau², had made considerable effort in this regard. Although the SWD was still accepting applications for HFA places, it agreed that the issue should be dealt with in the near future;
- from 1998 onwards, the SWD had acted on the recommendations made and the strategy formulated by the Elderly Commission. The indisputable policy objective was to enable elderly persons to receive a continuum of care in the community with a view to reducing, as far as possible, the demand for residential care homes. In the past few years, the SWD had reduced the number of self-care places from 1,225 to 260 in 2001. In addition, the HFA places continued to decrease as a result of the conversion into C&A places. Thus both self-care and HFA places were not included in the new RCHE developments;
- a package of enhanced home and community care services was introduced in 2001. After much publicity, 1,750 elderly persons were currently receiving the services. In fact, their health conditions might necessitate their admission to residential care homes but their families were taking care of them;
- in fact, the work was in progress and the SWD could not phase out the more than 7,000 HFA places in one go as many elderly persons were residing there. The elderly persons had a strong sense of belonging to the environment which they were used to. The SWD could not have them displaced for the sake of implementing some policies. However, in order to prepare for the implementation of Audit's recommendations, the SWD had conducted an analysis in early 2002 of the more than 6,500 elderly persons on the waiting list of the HFA. The findings revealed that most of them were still living with their families and did not have housing needs; and

² With the implementation of the Accountability System for Principal Officials, the statutory functions relating to health and welfare exercisable by the Health and Welfare Bureau have been transferred to the new Health, Welfare and Food Bureau with effect from 1 July 2002.

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- the SWD had conducted an assessment of the HFA cases received in the first three months of 2002. For instance, it received about 300 new cases during the period from 1 to 31 March 2002 and found that 23% of the applicants were able-bodied and did not need care services and housing and financial assistance. They considered their applications as a form of psychological and social insurance. They were concerned that when their health conditions or their relations with their families deteriorated, they would lose the roof over their head. Of the more than 6,500 applicants on the waiting list, more than 1,000 were inactive cases, who would not move into HFAs upon immediate approval of their applications. In the light of these issues, the SWD was undertaking preparatory work and hoped to submit to the Elderly Commission later in 2002 proposals concerning the implementation of Audit's recommendations.

13. According to the Director of Social Welfare's above reply, of the more than 6,500 applicants on the waiting list of the HFA places, more than 1,000 were inactive. The Committee asked whether the remaining applicants had housing needs.

14. The **Director of Social Welfare** replied that there were a total of 5,500 active cases. Half of the applicants were already living in public housing estates, whereas the remaining were living in private buildings. A total of 3,139 applicants were living with families or relatives. However, 3,792 applicants were found to be not having extensively used the day care services for the elderly, elderly activity centres and home care services. They were not aware of the wide range of support services available, e.g. home cleaning or medical consultation escort services. The SWD could inform them of existing support services and ask them whether they still needed the psychological insurance. Nevertheless, in changing the policy, the SWD must respect the reasonable expectations of the elderly. If they opted to wait for HFA places, the SWD might have to let them continue waiting.

15. Noting the Government's direction to phase out HFA places, the Committee enquired about the change in the actual provision of HFA places in the past few years. The **Director of Social Welfare** said that:

- in 2000, there were 88 HFA places under the SWD and the number had remained unchanged. At that time, there were 7,449 places provided by subvented HFAs. At the end of the 2001-02 financial year, the number had decreased to 7,143;

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- under the current strategy, when individual elderly persons in the HFAs needed a higher level of care, the SWD would propose that their places be converted to C&A places and additional resources be provided accordingly. Under the circumstances, the elderly persons would not have to leave the HFAs, but the disadvantage was that the conversion was a slow process. Moreover, as some hardware of the existing HFAs could not be changed, there was a need to conduct further analysis to ascertain the number of places which were suitable for conversion, so as to formulate a better strategy; and
- there was only one HFA run by the SWD, which was in Shatin. She had visited the HFA a couple of times soon after assuming office. On those occasions, she had talked with the residents there and indicated that the SWD hoped to close down the HFA. Some residents were almost in tears when requesting her not to have them relocated and hoped to stay there for the rest of their life.

16. The Committee understood from paragraph 3.19 of the Audit Report that there was a large number of vacant HSC units. As the SWD was still accepting applications for HFA places, the Committee wondered why the SWD had not referred the applicants, as far as possible, to the Housing Department (HD) to apply for HSC units.

17. The **Director of Social Welfare** responded that:

- she had discussed with the HD the use of HSC units or self-contained units to tackle the problem. However, the findings of the survey of the 300 HFA cases received during the first quarter of 2002 showed that only two applicants had a housing need. It seemed that many HFA applicants were in need of social and psychological support services. In the past two years, the SWD had launched a network to provide support to the elderly. It would have the 139 home help teams upgraded at a later stage, with a view to providing comprehensive services to more elderly persons to fully meet their social and psychological needs. Moreover, the SWD had been operating a uniform mechanism for assessing the care needs of the applicants for residential care services to ascertain whether they had a genuine need for admission to C&A homes; and
- as the SWD would consult the Elderly Commission in the near future and cease accepting applications for HFA places, it needed to better its complementary services. The SWD hoped to inform the applicants upon ceasing acceptance of new applications that it could provide immediately social support, cooking and cleaning services.

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18. **Dr E K YEOH, Secretary for Health and Welfare**, added that:

- there had been discussions at the Elderly Commission on the overall policy on the demand for care services for the elderly. The Administration would submit to the Elderly Commission some of Audit's recommendations, the issues discussed at this hearing and the follow-up actions. The policy had been formulated. The implementation would involve the adoption of complementary measures. The Administration would look into their feasibility and work out the timetable; and
- as far as the policy was concerned, the Administration was planning to provide only one type of RCHE so that the elderly persons would age in the same place. It hoped to maintain a central waiting list for all applicants for care services. There would be a uniform assessment to determine whether an applicant needed home or residential services. The present arrangement of providing three to four types of residential care homes for the elderly was not ideal. The majority of the applicants, while waiting, were receiving some form of home services. The waiting numbers did not reflect the situation.

19. Regarding the Administration's plan to provide only one type of RCHE, i.e. the policy of "one-stop service", the Committee enquired about the details of the policy and whether a consultation exercise had been conducted. The **Secretary for Health and Welfare** informed the Committee in his letter of 24 May 2002, in **Appendix 15**, that:

- the Administration had introduced a standardised care need assessment tool since November 2000. The tool helped to make more precise matching of services to care needs in both the community and residential settings. As a next step, the Administration was considering to establish a single point of entry for all subsidised community and residential care services. The concept was to no longer require elderly people to queue up for different services. Instead, there would be one central waiting list for all subsidised long-term care services, and services for elderly people would be matched in accordance with their care needs as assessed by the standardised tool. At this stage, the Administration was working out the details of the proposal; and
- in implementing any major new strategy, the Administration would consult and take into account the views of relevant parties and pay heed to the appropriate pace of introduction.

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20. According to paragraph 3.15(c) of the Audit Report, having regard to surplus HSC flats of the Housing Authority, the SWD was exploring the option whether the SWD and the Housing Authority could jointly offer a package of residential-cum-social/community support services to existing and potential HFA residents. The Committee enquired about the progress of the matter.

21. The **Director of Social Welfare** informed the Committee that:

- the community support services had expanded considerably in the past two years. Under fiscal pressure, she could not undertake to expand the services infinitely. Nevertheless, the existing network was extensive, consisting of several hundred social centres and multi-service centres. The SWD would discuss with the operators later in 2002 how to help more needy people through rationalising or re-engineering the services and better the coordination of services. For example, the multi-service centres organised many recreational activities. The Leisure and Cultural Services Department (LCSD) also organised many such activities. She had discussed with the Director of Leisure and Cultural Services in this regard, e.g. whether Tai Chi classes could be offered in parks by the LCSD. It was hoped that more resources of the multi-service centres could be used in services to elderly persons with social and psychological needs. The SWD would report regularly to the LegCo Panel on Welfare Services the progress of the enhancement of services for the elderly; and
- she regularly discussed with the HD the option of offering a package of residential-cum-social/community support services to existing and potential HFA residents. In preparation for the discussion, she had visited three or four HSC units. She found that the units were well-designed. The only disadvantage was that the kitchen and the washroom were shared. The HSC in Tin Shui Wai was of the latest design. There was a washbasin in each room. Although the washroom was shared by three residents, it was partitioned into three cubicles. The HSC units were also provided with warden service. She was aware that the vacancy rate was higher in Tin Shui Wai due to its remote location. Many elderly persons were concerned that if they moved there, they would lose their familiar environment.

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Provision of HSC units by the Housing Authority

22. Paragraphs 3.18 and 3.19 of the Audit Report revealed that as at 31 March 2001, 887 of the 9,383 HSC units provided by the Housing Authority were vacant, resulting in wastage of housing resources. Regarding the distribution of the 887 units, the Committee noted from the supplementary information, in **Appendix 16**, provided by the Director of Housing that the vacancy rates of HSC units in certain new housing estates were quite high. For example, 81 of the 197 HSC units in Sheung Tak Estate were vacant. The Committee understood that most elderly persons would prefer not sharing the units with strangers. It therefore asked whether the HD would offer the applicants a choice of sharing the units with their friends or relatives who were also on the waiting list of HSC units, with a view to shortening the vacant periods of the units.

23. **Mr Marco WU, Acting Director of Housing**, explained that:

- the high vacancy rate was attributable to an increased supply of HSC units and single-person flats in recent years. If elderly persons were given a choice, they would like to take up self-contained small flats. Those housing estates with a high vacancy rate of HSC units were mostly far from the urban area. Hence, the Housing Authority had decided more than a year ago to stop further production of HSC units and allow Waiting List applicants aged below 60 to apply for vacant HSC units; and
- the number of vacant HSC units in Sheung Tak Estate had decreased to 20. Moreover, the HD recently launched the Express Flat Allocation Scheme for vacant HSC units. Elderly persons who wished to be expeditiously allocated HSC units for sharing with friends or relatives could contact the HD. Nevertheless, the HD needed to take into account their respective priorities on the waiting list in processing their applications, so as to ensure a reasonable allocation of resources.

24. In response to the Committee's request, the **Director of Housing** provided, vide his letter of 15 May 2002 in **Appendix 17**, the position of the 887 vacant HSC units as at 30 April 2002, as follows:

Let	Under offer	Still vacant	Total
383	210	294	887

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The Director also stated that vacant HSC units were being offered to eligible applicants, including non-elderly applicants. A total of 1,253 offers were made since the units had become vacant. Should the less popular units be not taken up, the HD would put these flats under the Express Flat Allocation Scheme for selection by all eligible Waiting List applicants. Under the Scheme, applicants could get earlier rehousing than their normal turn if they were prepared to take up the less popular flats. Regular exercises were being conducted under the Scheme.

25. In view of the above reply, the Committee asked about the timetable for making full use of the 294 units which were still vacant.

26. The **Director of Housing** informed the Committee vide his letter of 10 June 2002, in *Appendix 18*, that:

- since relaxation of the age restriction from 60 to 55 in April 2001 and subsequently total lifting of the age limit in November 2001, 223 non-elderly applicants had been rehoused to HSC units as at 31 May 2002. In addition, 229 HSC units were under offer to non-elderly applicants as at 31 May 2002 with intake dates in early June 2002; and
- all vacant HSC units, including the 294 units, were under a continuous process of allocation although some of them might not be accepted by the applicants for one reason or another. In order to expedite the letting of vacant HSC units, the HD would be sending individual invitations around mid-June 2002 to all applicants who were at the end of the queue, including those not satisfying the Residence Rule, to join the Express Flat Allocation Scheme. The application period would be from 24 June to 8 July 2002. At the time of arranging flat selection under the Scheme in early August 2002, all the said 294 units, if still vacant, would be put up for selection by eligible applicants. The HD hoped that many of the vacant HSC units would be taken up by the end of the selection period in September 2002.

27. The Committee further enquired:

- about the measures taken by the HD to encourage elderly applicants to take up vacant HSC units;
- whether the HD would consider allocating vacant HSC units to those elderly applicants whose families were residents of the public housing estates in which the vacant units in question were located; and

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- if public housing units which had not been taken up one time, two times, three times, four times or five times would be put under the Express Flat Allocation Scheme, how far the average waiting time could be reduced for an elderly applicant or a Waiting List applicant in each of five scenarios.

28. In his letter of 22 May 2002, in *Appendix 19*, the **Director of Housing** said that:

- a video to promote HSC had been produced and was being shown to elderly applicants non-stop at the enquiry counter of the Housing Authority's Customer Services Centre. It was also played regularly at all the seven Housing Information Centres throughout the territory. The video highlighted to the elderly applicants that 24-hour warden service and social activities were provided at the HSC. All the HSC units were fitted with the emergency alarm system and purpose-built fittings. Guided tours were arranged for interested applicants to visit the HSC;
- the HD would, as far as possible, allocate HSC units according to the elderly applicants' preference, including allocating to applicants those HSC units close to their families, subject to availability of suitable premises. In addition, the HD had the Families with Elderly Persons Priority Scheme in place giving priority in allocation of flats to those families with elderly persons included in their applications; and
- making one offer to an elderly applicant, allowing time for viewing the flat and subsequently considering to accept or reject a housing offer would take four weeks to complete. Therefore, under the five scenarios prescribed by the Committee, four weeks' time was required for each scenario. With the Express Flat Allocation Scheme in place, the shortest waiting time for ordinary Waiting List applicants and elderly applicants had been reduced to about three months against the current average waiting time of 3.2 years and 1.3 years for the respective groups. The existing arrangements under the Scheme had proved to be effective in maximising the utilisation of available public housing resources as well as reducing the waiting time of applicants.

29. The Committee asked:

- whether the HD had implemented any administrative arrangements in relation to the allocation of vacant HSC units according to the elderly applicants' preference, e.g. the issuance of notices to residents of public housing estates;

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- whether the HD would consider adopting the following two proposals to make full use of vacant HSC units:
 - (a) if there were some residents of public housing estates whose parents were already on the waiting list for HSC units and there were vacant HSC units in their housing estates, their parents would be invited to apply for these vacant units; and
 - (b) if there were two or more applicants who wished to share a unit but they were at different places on the waiting list for HSC units, whether priority would be given to them in the allocation of vacant HSC units; and
- if the answer to the preceding inset was in the affirmative, the number of applicants for HSC units who would get earlier rehousing than their normal turn.

30. The **Director of Housing** informed the Committee vide his letter of 10 June 2002 that:

- there was already in place an established policy to facilitate special transfer for elderly tenants near to his or her family members already living in public housing so that the younger members could look after them. The policy was laid down in Chapter 4 of Section A of the General Housing Policies issued to all District Council members. The General Housing Policies were made known to Estate Management Advisory Committees (EMAC) and regular EMAC newsletters to tenants of the estates had adequate coverage of such policies;
- during the vetting interview of the elderly persons before allocation, an elderly applicant's request to be rehoused to specific HSC near his or her relatives in public housing would be recorded in the interview form for follow-up by the allocation team. Matching could normally be made to the HSC units concerned, especially those in the more remote estates with higher vacancy rates;
- the elderly parents had to be successfully registered on the Waiting List in the first instance. During the vetting interview, the rehousing preference of the elderly applicants would be noted in the interview form. Offer of rehousing to specific HSC could normally be made as far as resources permitted;

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- only 333, i.e. 3.5%, out of the total stock of 9,580 HSC units were two-person units. They were suitable for couples, related persons or unrelated elderly persons who opted to live together. Two or more related or unrelated elderly persons were encouraged to apply together under one single application. Under the Elderly Persons Priority Scheme implemented since 1979, related or unrelated elderly persons could apply together for public housing and be rehoused together earlier. If individual applications from the elderly persons occurred in the process of waiting, the later applications could be advanced through combining with the earlier one. Since 1979, about 15,000 elderly applicants had benefited from the Scheme;
- compared with the current average waiting time for families at three years, the current average waiting time for single elderly persons at 1.2 years was obviously more favourable. This was far ahead of the Government's target of two years by 2005. The HD was already adopting the Committee's proposals in the allocation of flats for elderly persons. As the HD was planning to promote the general awareness of the Elderly Persons Priority Scheme, it would take the opportunity to publicise the measures in place so as to ensure that all prospective elderly applicants were fully aware of the Scheme; and
- depending on the locations of HSC, elderly applicants choosing the less popular HSCs could have earlier rehousing. The shortest waiting time at the moment was about three months. These less popular HSCs were all open to the existing 8,016 elderly applicants registered on the Waiting List. The potential beneficiaries of the Committee's proposals would be these 8,016 elderly applicants.

Provision of subsidised nursing-home and infirmary places

31. Paragraph 4.4 of the Audit Report stated that the Government had not determined a planning ratio for the provision of nursing-home places. The Committee asked when the Government would adopt a planning target in this regard.

32. In her letter of 23 May 2002, the **Director of Social Welfare** explained that:

- in line with the concepts of "ageing in place" and "continuum of care" and to ensure flexible and optimal use of resources, the Administration did not see the advantage of pursuing separate planning targets for the provision of nursing-home places. The intention was to enable residential care homes to

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be able to continue to take care of their residents when their health conditions deteriorated. To achieve the objective, all homes put out for competitive tendering would include such requirements for continuum of care. However, noting that there were now a considerable number of elderly persons on the waiting list for nursing-home places, the SWD was planning to provide additional nursing-home places in some of the new contract homes so that these homes might admit elderly persons on the waiting list immediately to provide them with better care. The SWD would closely monitor the proportions of nursing-home places versus C&A places in the new contract homes to ensure an optimal mix and to reduce the waiting times for admission to nursing homes; and

- with further development of enhanced home and community care and taking account of elderly persons' preference, the Government might be able to take care of elderly persons with C&A level of impairment at home and only elderly persons whose health conditions necessitated their admission to nursing homes would in future require admission to residential care homes. The entire long-term care scene would undergo some significant changes with the benefit of recent developments, including the findings and recommendations of the Audit Report. It would not be timely to settle on planning targets for services one way or the other without drawing reference from those likely changes.

33. Turning to the planning target for infirmary places adopted by the Hospital Authority, the Committee noted from paragraph 4.6 of the Audit Report that for many years, it was five places per 1,000 population aged 65 or over. Figure 7 of the Audit Report revealed that the actual provision of infirmary places had consistently been well below the planning target in the past few years. As at 31 March 2001, the actual provision was 1.5 places per 1,000 elderly persons. The Committee further noted from the Hospital Authority's response in paragraph 4.9(e) that given the uncertainty of the policy, the Hospital Authority had not revised the planning target until the policy direction was clear.

34. Against this background, the Committee asked:

- when a planning target was first adopted for infirmary places; and
- whether respective targets were also set at that time regarding the average waiting time for an infirmary place and the reduction of the average waiting time.

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35. The **Secretary for Health and Welfare** informed the Committee at the public hearing and in his letter of 24 May 2002 that:

- the planning ratio of five infirmary beds per 1,000 elderly persons aged 65 or above was adopted by the Medical Development Advisory Committee (MDAC) of the former Medical and Health Department in 1981. There was no target set for the average waiting time or reduction of average waiting time for infirmary beds at the time;
- since then, there had been significant developments in the provision of medical and care services for frail elderly persons. The Hospital Authority, which was established in 1991, conducted a review every three to five years of the requirement for different types of hospital beds, including infirmary beds, on a territory-wide basis. In conducting such reviews, the Hospital Authority had taken into account a number of factors, including population statistics, observed changes in disease patterns, and the prevailing utilisation patterns of hospital services. The reviews formed the basis for the Hospital Authority's discussion with the Administration on capital and recurrent funding, in order to meet the changing needs of the population. In the context of these reviews, a target to provide 1,000 infirmary beds in the next five years was set in 1997-98. The Administration was meeting this target. Two years ago, the Hospital Authority had reached an agreement with the Administration on moving away from a facility-based funding mechanism to a population-based funding mechanism. Emphasis had been put on post-discharge care and community-based services to support patients to remain in the community;
- in light of the developments in the planning mechanism for provision of hospital beds and the changing needs for infirmary beds, the Administration regarded that the original planning ratio was no longer appropriate. With experience gained in practising "continuum of care" in both community and residential care services for frail elderly persons, the Administration would review in due course the role of the Hospital Authority in the provision of infirmary care; and
- he agreed with the Director of Audit that infirmary care should not be provided in a hospital setting. However, the policy direction had not been set regarding the setting appropriate for providing infirmary care. The provision of elderly services by the SWD was a complicated matter. Its staff needed to receive training in order to provide infirmary services. At present, some of the infirm patients were transferred from the acute hospital and started receiving infirmary care in the hospital setting after suffering from stroke or other illnesses. The remaining patients were from the Central Infirmary

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Waiting List (CIWL). Hence, the Hospital Authority needed to conduct an in-depth analysis of the size of these two groups of infirm patients and the financial implications. It would ascertain the number of infirm patients who could be taken care of in non-hospital setting.

36. In response to the Committee's concern over the failure of the Hospital Authority to reach the planning target of five places per 1,000 elderly persons, **Dr William HO, Chief Executive, Hospital Authority**, said that:

- the Hospital Authority would reach a consensus with the Government when setting the planning ratio in the future. The Hospital Authority had noted the direction of government policies. For example, it was mentioned in the Audit Report that consideration might be given to the provision of infirm beds by the SWD instead of by the Hospital Authority;
- there were two types of infirm places. The Hospital Authority provided infirm places for applicants on the CIWL and 1,421 infirm places for patients transferred from acute hospitals. When the Hospital Authority applied for funding from the Government every year, it needed to state the category of beds to be increased. The annual discussion with the Government on the use of resources also covered the classification of infirm places into those for CIWL applicants and those for infirm patients. Currently the policy might be in transition. When the policy had been established for taking the provision of infirm care out of the hospital setting, the planning target would be revised; and
- the future direction of the policy was based on the concept of "Ageing in Place", which meant that the Hospital Authority would provide some outreach medical services so that elderly persons could stay at the same residential home when their health conditions deteriorated. In fact, the Hospital Authority had vigorously developed geriatric service and psychiatric service for the elderly in the past few years. The services involved frequent deployment of staff to provide support to private residential homes. However, the Hospital Authority's efforts could not be fully reflected in the planning ratio.

37. According to Figure 7 of the Audit Report, the Hospital Authority provided the same number of infirm places as at 31 March 2000 and as at 31 March 2001. In view of the growing elderly population, the Committee asked about the reasons for this and the number of infirm places provided vis-à-vis the number of applicants from 1996 to 2001.

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The Committee further noted from Notes 10 and 11 of the Audit Report that during the period from 1997-98 to 1999-2000, more than 7,000 elderly persons passed away while waiting for infirmary places. The average waiting time was as long as 36 months in March 2000. The Committee enquired about the average waiting times for an infirmary place in March 2001 and March 2002 respectively.

38. The **Secretary for Health and Welfare** provided the statistics on applicants on the CIWL from 1996-97 to 2000-01 and infirmary places provided during the same period vide his letter of 24 May 2002. He also said that:

- the majority of applicants on the CIWL were already receiving some form of public services, as reflected from the breakdown of their place of residence in Annex II of his letter:
 - (a) 20% of the applicants were living in subvented care homes. 50% were in private or self-financing care homes. In addition, the Hospital Authority's Community Geriatric Assessment Teams provided outreach geriatric care to all subvented care homes and the majority of the private care homes. Infirmary Units were set up and Infirmary Care Supplement was provided to enable a number of subvented C&A homes to take care of elderly persons assessed to be in need of infirmary care;
 - (b) about 10% of the applicants were receiving other types of hospital services; and
 - (c) for the remaining 20% of the applicants living in their own homes, community care and support services were available and provided mainly by the welfare sector as required. These included Community Nurses and enhanced home and community care services, which was a package of centre and home-based services tailor-made to meet the individual care needs of frail elderly persons;
- the total number of infirmary beds increased from 1,915 in 1996-97 to 2,851 in 2001-02. A total of 68 beds were added in 2000-01 over the previous year, and were allocated for use by post-acute patients instead of by applicants on the CIWL. The reason for giving priority to patients in the hospital sector was to lessen the pressure on acute beds, the costs of which were much higher than infirmary beds. The majority of post-acute patients were elderly persons, for example, stroke patients who immediately became severely disabled and who required urgent post-acute infirmary care. On the other hand, the majority of CIWL applicants were already receiving some form of care through different channels as described in preceding inset; and

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- the number of active applicants on the CIWL had reduced from 5,690 in 1998-99 to 4,973 in 2001-02. The average waiting time for CIWL applicants admitted in the year 2001-02 was 39 months.

39. The **Secretary for Health and Welfare** also said that the majority of elderly persons who needed infirmary care were relatively frail. The number of elderly persons who passed away while waiting for infirmary places had dropped from about 3,500 persons in 1998-99 to about 2,000 persons in 1999-2000. The situation had not worsened.

40. The Committee was surprised at the Secretary for Health and Welfare's statement in his letter of 24 May 2002 that "the Administration regards that the original planning ratio (for infirmary places) is no longer appropriate". It wondered whether the Administration had consulted the MDAC, the Hospital Authority, the Elderly Commission or the LegCo regarding its decision to abolish the original planning ratio.

41. The **Secretary for Health and Welfare** responded in his letter of 12 June 2002, in *Appendix 20*, that:

- the total number of infirmary beds in 2001-02 was 2,851. This represented a ratio of 3.8 infirmary beds per 1,000 elderly persons aged 65 or above. The total number of infirmary beds would be increased by 100 to 2,951 by March 2003, and the ratio would correspondingly be increased to 3.9 infirmary beds per 1,000 elderly persons. The Administration was on schedule in meeting the policy pledge set in 1997-98 in providing 1,000 infirmary beds by 2002-03; and
- the Administration had not abolished the planning ratio, but considered that this target which had been set over 20 years ago was no longer appropriate and should be reviewed in light of the developments in the provision of medical and care services for frail elderly persons since its adoption in 1981. The Administration further considered that in addition to the planning ratio, the review should cover the changing needs for infirmary beds and the role of the Hospital Authority in the provision of such beds. Given that this was a complex subject, the Administration would require some time to work out proposals. When it had definite proposals on specific areas, it would consult relevant parties, including the Elderly Commission and the relevant LegCo Panels.

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42. The Committee noted from Table 5 of the Audit Report that the estimated monthly subsidy for an infirmary place was as high as \$30,000. In contrast, the cost of a nursing-home place for caring of an elderly person in need of infirmary service would amount to \$18,625, as revealed in paragraph 4.14 of the Audit Report. According to paragraph 4.20, the Chief Executive of the Hospital Authority had said that if the elderly persons on the waiting list for infirmary places were transferred to nursing homes, the Hospital Authority still required beds for managing post-acute infirm patients and those who were presently accommodated in a setting not appropriate for infirm patients. Hence, the Hospital Authority could not provide savings by transferring these patients to the welfare sector. The Committee invited the Chief Executive, Hospital Authority to elaborate on this point.

43. The **Chief Executive, Hospital Authority** explained that:

- the estimated monthly subsidy of \$30,000 for an infirmary place was the average subsidy for infirmary beds for both applicants on the CIWL and post-acute infirm patients. The cost of the 1,134 infirmary beds for CIWL applicants was lower; and
- the Hospital Authority would have no objection to the policy option of taking the provision of infirmary care for CIWL applicants out of the hospital setting. However, it should be noted that many elderly persons were currently residing in private residential homes. The Hospital Authority required additional resources to provide outreach services. Moreover, when some stroke patients at private elderly homes could not be taken care of with the most appropriate care, they would need to receive further medical care at the hospital. If resources for the provision of infirmary beds for CIWL applicants were to be taken from the Hospital Authority, there was a need to conduct a cost analysis.

44. The Committee enquired about the estimated monthly subsidy for each type of infirmary bed. In his letter of 25 May 2002, in **Appendix 21**, the **Chief Executive, Hospital Authority** stated that existing infirmary beds admitted patients for long-term care for applicants on the CIWL and for extended care for infirm patients transferred from acute hospitals. The estimated costs for the two type of beds were \$19,124 and \$37,826 per month respectively.

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45. The Committee noted from paragraph 4.19(c) of the Audit Report the Director of Social Welfare's statement that an arrangement to transfer the infirmary function to the social welfare setting must be accompanied by a corresponding budget transfer. The Committee invited the Director to elaborate on her view. The **Director of Social Welfare** said in her letter of 23 May 2002 that:

- due to the shortage of infirmary places in hospitals, some transfer of cost in looking after these infirm elderly persons, though not directly from the Hospital Authority to the SWD, had already taken place in the form of the SWD on its own finding extra funding to pay for home operators looking after these elderly persons in the welfare setting in the form of cash-limited infirmary supplements; and
- given the overall fiscal stringency, she could foresee major difficulties for the SWD to secure further additional resources on its own to take care of infirm elderly persons in the welfare setting. She had therefore expressed the view that any delineation of respective responsibilities in long-term care should be accompanied by the corresponding budget transfers from the Hospital Authority to the SWD, otherwise the SWD would be faced with the consequence of the provision of care to other elderly persons currently in the welfare setting being adversely affected, such as lengthened waiting times for nursing-home places.

46. In response to the Committee's concern over the allocation of resources between the Hospital Authority and the SWD regarding the provision of infirmary care, the **Secretary for Health and Welfare** said that the Administration was planning to provide one type of residential care home which could cater for the different levels of care needs of the elderly. It needed to analyse with the Hospital Authority and identify the group of infirm elderly persons who could be accommodated in non-hospital setting for receiving infirmary care service. The allocation of resources depended on the assessment of care needs of the elderly persons. He agreed that there was a need to discuss with the Hospital Authority and the SWD the problem of allocation of resources between them regarding the provision of infirmary care.

Government's financing of subsidised residential services for the elderly

47. The Committee noted from paragraphs 5.8 and 5.10 of the Audit Report that Audit had conducted a research on the arrangements for providing residential services for the elderly in four advanced countries. Audit found that in general, elderly persons needed to make contributions to cover part of the costs of the residential services. The size of the

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contribution varied according to the persons' income and assets, based on a means-test system. On the other hand, the Committee noted from the submission dated 3 May 2002 from the Hong Kong Council of Social Service, in **Appendix 22**, that according to the General Household Survey conducted in 2000, the median income of elderly persons was \$2,600. It was anticipated that not many of the elderly persons could afford to pay more. It would be very costly to set up the administration system to conduct the assessment and would end up with very few elderly persons making contributions for the service.

48. Against this background and in view of the Director of Social Welfare's support for the introduction of some form of means test as stated in paragraph 5.24(e) of the Audit Report, the Committee asked:

- when the Administration had accepted the principle of introducing some form of means test in respect of the provision of RCHes; and
- whether a consultation exercise had been conducted in this regard.

49. The **Secretary for Health and Welfare** informed the Committee at the public hearing and in his letter of 24 May 2002 that:

- in formulating a system, the Administration needed to take into account elderly persons' comparatively long duration of stay in nursing homes. Elderly residents would be required to pay \$6,000 or even \$7,000 to \$8,000 a month to ensure cost recovery by the Government. Without a pension or insurance scheme, most of the elderly persons would have difficulty paying more. As proposed in the Harvard Report, there should be an insurance scheme in the long run, which enabled members of the public to spend a portion of the premium on long-term care services when they reached old age;
- the Administration had not yet formulated any proposal in introducing means-testing for the provision of residential care services. However, in the context of developing a quality and sustainable long-term care system, the Administration was examining options that helped it target resources at elderly persons with genuine needs. These included the implementation of the standardised care need assessment mechanism since November 2000. The Administration was also exploring the option of setting up a new subsidy arrangement which allowed elderly persons more freedom in choosing care homes, flexibility to contribute more to their own care costs, and a quick access to such service. As this was a complex matter, the Administration would require more time to work out the details and implications, including

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the factor of affordability. It would be a severe financial burden on elderly persons and their families if they had to pay for a high proportion of the residential care cost, particularly for a higher level of care, on a long-term basis; and

- in parallel and to create an environment to enable a subsidy scheme to succeed, the Administration had taken some steps to improve the quality of residential care services. These included enhancing training of staff in care homes; dissemination of information on care homes to the public; progressive promulgation of application of subvented service standards in the private sector; commissioning a consultancy study on the establishment of an accreditation system for care homes in Hong Kong with the objective of raising the quality of service; and selecting operators through open tendering to provide additional and quality subsidised and non-subsidised places in all new care home premises supplied by the Government.

50. The **Director of Social Welfare** supplemented that:

- she had responded in the Audit Report that Audit's recommendation on the introduction of some form of means test was worthy of support. The rationale was that according to the basic principle of a social welfare system, resources should be targeted at the elderly persons with genuine needs. Given increasing fiscal constraints, the recommendation of allocating the limited number of RCHE places to those most in need was worthy of support; and
- means-testing did not mean that the elderly persons would either receive or not receive the services. At present, some form of means test had been adopted in welfare services for the elderly. In the case of home care and enhanced home care services, there were three levels of charges for meals delivered to elderly persons. The elderly persons are required to take a means test. If they were on the Comprehensive Social Security Allowance (CSSA), they would pay \$12.6 for a meal. If they were in a better financial position, with their income in excess of the CSSA by less than 150%, they would pay \$15.4 for a meal. If the elderly persons' income was in excess of the CSSA by 150% or more, they would pay \$18.6 for a meal.

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Monitoring of healthcare services of RCHEs

51. As stated in paragraph 8.5 of the Audit Report, during the visits to 20 randomly selected RCHEs, Audit had conducted interviews with carers and residents at the RCHEs and made observations on the facilities and services provided. Figure 9 revealed that 69% and 44% of health workers could not provide satisfactory answers to questions respectively on the provision of care to an elderly person who was on oral medication and on the knowledge on normal blood pressure. According to paragraph 8.28, there were no provisions under the Residential Care Homes (Elderly Persons) Ordinance, the Residential Care Homes (Elderly Persons) Regulation, or Code of Practice specifying the minimum qualifications of a person to be employed as a care worker or ancillary worker at an RCHE. The Committee noted from paragraph 8.29 that under the existing arrangements, there was no assurance that, between 6 pm and 7 am each day, there were staff working at a C&A home who had received proper and recognised healthcare training. As 15 of the 20 RCHEs visited by Audit were private RCHEs, the Committee asked the Director of Social Welfare to comment on the standards of healthcare services provided at private RCHEs.

52. The **Director of Social Welfare** explained that:

- at present, private homes were only required, under the Residential Care Homes (Elderly Persons) Ordinance, to apply for licences from the SWD. The more than 500 private homes had all been granted licences. She admitted that in view of the varying standards in healthcare services at private homes, the SWD needed to step up monitoring on them. However, provision of a higher level of services would entail an increase in the operating cost of these homes. Some elderly residents in private homes were supported by middle-income families. These families might not be able to afford increased fees for places at the private homes; and
- whenever the Administration discussed the option of tightening control on private homes through legislative amendments, the impact on the commercial operators should be considered. Even under such restriction, the SWD was providing incentives to the private homes for improving their service quality. Firstly, the Government bought places directly from private RCHEs with a view to ensuring a higher level of services. Secondly, staff in private and subvented homes were invited to attend training courses, most of which were subsidised by the SWD. Actually, 684 training places would be provided for health workers in 2002-03, and by 2005, the SWD would provide a total of 2,160 multi-skilled training places for care workers.

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53. Regarding the periodic inspections of RCHEs by the SWD's Health Inspectorate Team (HIT), the Committee noted from paragraph 8.16 of the Audit Report that as at 31 March 2001, the HIT had two Nursing Officers who were responsible for inspecting all RCHEs. As pointed out by Audit in paragraph 8.17, with only two Nursing Officers, the HIT could not be expected to effectively monitor the RCHEs. The Committee considered that although the 18 Visiting Health Teams (VHTs) of the Department of Health (DH) conducted periodic visits to RCHEs to provide health education programmes, they were not playing the monitoring role. The Committee asked whether the SWD would take any measures to improve the situation.

54. The **Director of Social Welfare** replied that there was inadequate nursing manpower in the HIT. She welcomed Audit's suggestion for the Department of Health to provide professional support or advice to the HIT. She would discuss with the Director of Health for cooperation in this regard.

55. In the light of the above reply, the Committee invited the Director of Health to give her comments on Audit's recommendation. **Dr Margaret CHAN FUNG Fu-chun, Director of Health**, said that:

- there was one VHT for each district. In principle, the DH was willing to complement the SWD's efforts. However, as the SWD was responsible for licensing RCHEs, its monitoring function was different from the DH's function;
- concerning the work of the VHTs, the DH would send professional medical teams to RCHEs to provide services. Although the utilisation of the VHT services was voluntary, 97% of the RCHEs were willing to accept the services. The VHTs provided practical training and made suggestions on the spot, having regard to the environment and needs of the RCHE and the training needs of its workers, to improve the services provided at the RCHE. In the light of its VHTs' work experience, the DH would regularly provide feedback to the nursing officers of the HIT. The DH would reflect to the SWD the problems in the RCHEs without informing the SWD of the names of the RCHEs concerned; and
- the DH would also assist RCHEs in drafting their Code of Practice and require them to strengthen services that needed improvement. The VHTs would pay more visits to bigger institutions. If individual institutions were keen about healthcare education, the VHTs would pay more visits to them. She would discuss with the Director of Social Welfare measures to improve the service standard of RCHEs.

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56. In response to the Committee's enquiry about voluntary utilisation of the VHT services, the **Director of Health** said that if RCHEs were to be required to receive healthcare education, the Administration would need to consider introducing relevant legislative amendments. As 97% of the institutions had accepted such services, she preferred persuading the remaining 3% to receive training.

Overall discussion

57. The Committee understood from the Secretary for Health and Welfare's letter of 24 May 2002 that the Administration had not yet formulated any proposal to introduce means-testing for the provision of residential care services and was working out the details of the proposal for a one-stop service for the provision of subsidised long-term care to elderly persons. It appeared to the Committee that although the Administration had taken some steps to improve the quality of residential care services, it would take a long time to implement the new strategies. In view of the growing demand for residential services for the elderly and the fact that many elderly persons would pass away while waiting for the services, the Committee enquired about the stopgap measures that the Administration would take to deal with the present situation.

58. In his letter of 12 June 2002, the **Secretary for Health and Welfare** informed the Committee that:

- the Administration would continue to accord priority to meeting the care needs of frail elderly persons, including the need for residential services. The waiting list for residential services, comprising about 27,000 applicants, did not totally reflect genuine need. The reasons were as follows:
 - (a) the applicants had not yet undergone the standardised care need assessment mechanism; and
 - (b) about 50% of the applicants were residing in private or self-financing homes, were in subvented care homes receiving lower levels of care services, or were receiving some form of home and community services;
- the Administration would continue to respond to demands for long-term care services by enhancing value for money and improving services. With the introduction of enhanced home and community care services in April 2001, eligible elderly persons for residential services were given the option to receive the new services in lieu of residential services, or while they were awaiting residential services placement. About 29,000 elderly persons were

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now being served by a range of community services, including enhanced home and community care services, representing about 60% increase compared to 1997-98. The Administration intended to re-engineer and upgrade existing community support services, and to further expand enhanced home and community care services to ensure that appropriate care services were provided to frail elderly persons once their care needs were determined by the standardised care need assessment mechanism;

- in parallel, the Administration would continue to provide residential services for those elderly person who required such services through a mixed mode of service provision, with participation from NGOs and the private sector. There were about 26,000 subsidised beds, representing about 62% increase compared to 1997-98. In 2002-03, the Administration would provide an additional 1,600 subsidised beds; and
- the Administration would keep the provision of long-term care services, including residential services, under regular review, taking into account the experience of enhanced home and community care services, and the service needs as determined by the standardised care need assessment mechanism.

Evidence taken at the public hearing on 4 July 2002

Provision of HSC units by the Housing Authority

59. In response to the Committee's enquiries about the latest position of the 887 vacant HSC units, **Mr Marco WU, Deputy Director of Housing**, said that:

- in April 2002, the number of vacant units had reduced to 294. 331 units had been let to elderly persons and 52 units had been let to non-elderly persons. Of the units under offer, 17 units had been offered to elderly persons and 193 units to non-elderly persons; and
- the number of applicants registered on the Waiting List was decreasing. There were currently a total of 84,000 households on the list. The one-person, two-person and three-person applications from elderly persons amounted to 8,016 households, which represented less than 10% of the households on the list.

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60. In view of the large number of elderly applicants for public rental housing, the Committee considered that vacant HSC units should not be allocated to non-elderly applicants. The **Deputy Director of Housing** responded that:

- apart from HSC units, the HD also allocated to elderly applicants self-contained units for one person or two persons. Hence, there were sufficient units for elderly applicants; and
- some HSC units had remained vacant for a long period of time because some elderly applicants might not find the facilities or the locations agreeable. They preferred self-contained units. Priority would certainly be given to elderly applicants in the allocation of HSC units while the HD would also allocate surplus vacant units to non-elderly applicants.

61. The Committee noted from the Director of Housing's reply of 22 May 2002 that the HD would, as far as possible, allocate HSC units according to the elderly applicants' preference, including allocating to applicants those HSC units close to their families. The Director further informed the Committee in his letter of 10 June 2002 that during the vetting interview of the elderly persons before allocation, an elderly applicant's request to be rehoused to specific HSC near his or her relatives in public housing would be recorded in the interview form for follow-up by the allocation team. The Committee asked whether the HD would post notices in public housing estates with vacant HSC units, so that the tenants in these housing estates would encourage their parents who were already on the waiting list for HSC units to apply for these vacant units.

62. The **Deputy Director of Housing** replied that the HD had not adopted the measure, but very much encouraged elderly persons to live in the same public housing estate as their relatives so that the younger generation could take care of them. The HD needed to consider whether this message would encourage elderly persons to live alone.

63. Table 4 of the Audit Report revealed that the percentage of vacant HSC units remained high in the period from 1998 to 2001 except for the year 1999. The Committee wondered why there were so many vacant units, given the large number of applicants on the waiting list of HSC units. It seemed that the vacant units were unpopular units. The Committee considered that as the Housing Authority had continued to build HSC units, the problem of vacant units was prolonged, thus wasting taxpayers' money.

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64. The **Deputy Director of Housing** responded that the percentage of vacant units was not high in 1999, but it had been rising in the past two years. The reason was an increased supply of HSC units and self-contained units. The Housing Authority had commissioned a consultant in 2000 to conduct a study on the housing needs of the elderly. In the light of the findings of the consultancy report, the Strategic Planning Committee of the Housing Authority had decided in November 2000 to stop further production of HSC units.

65. As regards the Housing Authority's decision to stop further production of HSC units, the Committee asked:

- when the Housing Authority or the HD was first aware that the HSC was not very popular;
- whether the HD had adopted any measures, before the Housing Authority made the decision, to reduce the planned production of HSC units; and
- about the details of the Housing Authority's discussions on the issue and the justifications for the decision.

66. In his letter of 12 July 2002, in **Appendix 23**, the **Director of Housing** provided information about the decision process of the Housing Authority leading to stopping further production of HSC units. He stated that:

- having regard to elderly persons' special accommodation needs, the Housing Authority had decided in 1985 that it should build HSC units in public housing estates with warden service so that NGOs could devote their resources to the care of those elderly persons who would require more support services. The arrangement was supported by the SWD;
- it was on this mission that the Housing Authority had assumed the responsibility of providing HSC. HSC units had been all along well received by the public for its provisions, including the built-in emergency alarm system and 24-hour warden service. When members of the Elderly Commission visited some HSC units in February 1998, they were impressed by their cosy and protected environment. There was no sign that HSC was not popular until 1998-99 when the take-up of HSC units began to slacken. As shown in Table 4 of the Audit Report, the vacancy rate was normal as at the end of March 1997 and even in early 1999, i.e. 1.7% and 3.7% respectively, but was relatively higher in 1998, i.e. 7.9%. As the take-up rate

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was improved in 1999 with a vacancy rate of 3.7%, the HD needed to closely monitor the vacancy position before making any decision that might impact on other elderly service providers;

- the relatively higher vacancy rate in 1998 was attributable to the increase not only in the provision of hostel type HSC with improved facilities but also the supply of self-contained small flats for the elderly. With a wider choice of housing types available, HSC units, especially those without en suite bathrooms, were becoming less attractive;
- apart from the 7.9% vacant HSC units, the remaining 92.1% of the HSC units that were occupied in 1998, were maintained in good conditions with elderly persons happily living there. They enjoyed very much the common facilities and activities organised for them, e.g. television and other entertainment programmes, reading materials, chess playing and other social as well as healthy-ageing activities. More importantly, they felt secure and safe with the 24-hour warden service provided therein;
- the HD reviewed its housing provision and design regularly, taking into account the demand and changing needs of the elderly. The Housing Authority introduced HSC to provide housing with warden service for able-bodied elderly persons so that the NGOs could devote their resources to accommodate elderly persons with impairments in residential care homes. As reduction in HSC units might impact on other elderly policies and service provisions, the HD considered it necessary to examine the issue together with the provision of other services for the elderly. The HD therefore held a series of consultations with the then Health and Welfare Bureau and its departments and, at the same time, decided to conduct an overall review of its existing provision of and strategies for elderly housing to coordinate the Government's pledge of "ageing in place" and "continuum of care". It was in this context that the HD commissioned a consultancy study;
- the Housing Authority decided to stop further production of HSC units in November 2000, having regard to the elderly persons' preference for self-contained small flats. However, there was a need to maintain the existing HSC units and allow the then ongoing construction programme to continue, so that elderly applicants could have a choice between self-contained small flats and HSC units with warden service;

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- according to the findings of the consultancy study, flats with shared facilities were less popular among the elderly tenants. The Strategic Planning Committee of the Housing Authority endorsed on 30 November 2000, among other initiatives, to discontinue further production of HSC with shared facilities but concentrating more on building self-contained small flats, having regard to the elderly persons' preference. Accordingly, the Elderly Commission was also informed of and supportive to this new development in February 2001; and
- the consultancy study on "Provision of Housing and Care Services for the Elderly in Public Housing Estates" was a comprehensive review of the Housing Authority's existing provision of housing and support services for the elderly in public rental housing of which HSC was only one of options. The primary aim was to explore the feasibility of developing an integrated mode of service delivery to achieve the two central themes advocated by the Elderly Commission, i.e. "ageing in place" and "continuum of care". International references were made in the study. The new concept of Universal Design was also studied in depth.

67. The Committee was concerned about the disposal of the last batch of new HSC units. It requested the Director of Housing to provide information on the new units, including their target completion date, number and locations, the timetable for allocation and the actions taken to promote these units.

68. The **Director of Housing** provided the information in the same letter, as follows:

	District	Estate	Number of units	Target completion date
Extended-Urban	Tsuen Wan Ma On Shan	Wah Lai Chung On	152)
			156)
) 1 August 2002
Urban	Cheung Sha Wan	Fu Cheong	131)
	Total		439	

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The Director also stated that all these units would be offered to eligible single persons on the Waiting List with priority given to the elderly. The HD anticipated that all 439 units would be offered to elderly persons in the first round of allocation by the end of September 2002. Those units rejected by elderly persons would be offered to non-elderly applicants in October 2002. As regards actions to promote these new units, the HD would take the following publicity measures:

- posting notices in Wah Lai, Chung On, Fu Cheong and neighbouring estates in late July 2002 to publicise that there would be new HSC units available for letting, so that local residents with elderly relatives who would like to live there might call the HD's hotline to indicate their interest;
- asking the elderly applicants during vetting interviews whether they would like to be rehoused to HSC units and note down their preference. Allocation would be made according to their preferred districts, subject to availability of resources;
- arranging group visits for the elderly applicants to see the environment and facilities provided in the new HSC units in three housing estates; and
- showing the video on HSC units to elderly applicants at the time when they attend interviews in the HD's Customer Service Centre.

69. In the light of the above reply, the Committee requested the Director of Housing to provide a report on the following as at 30 November 2002:

- the total number of the HSC units, including the last batch to be completed on 1 August 2002, that were vacant; and
- among the last batch of the 439 new HSC units, the respective numbers of those that had been allocated to elderly and non-elderly applicants, and the number that remained vacant.

70. The **Director of Housing** informed the Committee, vide his reply of 11 December 2002 in *Appendix 24*, that:

- the total number of vacant HSC units including the last three projects completed in July and August 2002 in Fu Cheong, Wah Lai and Chung On Estates, was 144 units, with a vacancy rate of 1.4%;

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- to expedite the letting of HSC units, HD had pooled 862 such units in all districts for flat selection by eligible Waiting List applicants in the last Express Flat Allocation Scheme just completed in October 2002. Out of the 862 flats pooled, 801 units were selected by the applicants; and
- the letting position of the last batch of the 439 new HSC units was as follows:

District		Estate	Number of new units	Number of units let to elderly applicants	Number of units let to non-elderly applicants	Number of units yet to be let		
						Number of units under offer		Number of vacant units
						To elderly applicants	To non-elderly applicants	
Urban	Cheung Sha Wan	Fu Cheong	131	61	2	66	0	2
Extended Urban	Tsuen Wan	Wah Lai	152	11	15	42	83	1
	Ma On Shan	Chung On	156	5	5	1	143	2*
Total			439	77	22	109	226	5

* Two flats were withheld from letting due to improvement works being carried out.

Provision of subsidised nursing-home and infirmary places

71. Referring to the Secretary for Health and Welfare's statement in his letter of 24 May 2002 that the Administration regarded that the original planning ratio for infirmary places was no longer appropriate, the Committee pointed out that the Secretary had neither mentioned this thought in the course of the audit review or at the first public hearing nor informed any LegCo Panels of the thinking. The Committee considered that procedures should have been established for the revision of the planning ratio.

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72. The Committee questioned when the Administration came to the view that the original planning ratio for infirmary places was no longer appropriate. **Dr E K YEOH, Secretary for Health, Welfare and Food**, explained that:

- many services provided by the Hospital Authority had undergone changes. The demand of the community had also changed. Issues relating to the planning of infirmaries had been raised in the Audit Report. There were discussions on the current situation at the last public hearing. Although the Administration considered that the planning ratio was no longer appropriate, this did not mean that the Administration had abolished the planning ratio. This actually meant that the circumstances were changing;
- in the past, it was the MDAC of the former Medical and Health Department which advised the Government on the demand for infirmaries. Following the establishment of the Hospital Authority, the MDAC had ceased operation. Under the Hospital Authority Ordinance, the Hospital Authority was required to advise the Government on the territory-wide demand for medical services. Thus the Hospital Authority needed to submit to the Government a proposal on the planning ratio for infirmary places. The Government and the Hospital Authority had agreed that a review must be conducted on the planning ratio. In fact, the Hospital Authority would conduct a review of the demand of infirm patients every three to five years, which covered the territory-wide requirement for infirmary places and services;
- the original planning ratio was no longer appropriate due to rapid development in medical technology and the change in the mode of provision of residential services for the elderly by the SWD. The SWD had strengthened the provision of outreach services. Treatments which must be provided in the hospital setting could now be provided at places other than the hospital; and
- according to the report of the MDAC in 1981, the provision of infirmaries was due to the needs of many post-acute patients for hospitalisation. The aim of providing infirmary beds was to reduce the pressure on acute beds. At that time, there was a shortage of residential services for the elderly provided by the SWD and many patients continued to stay in the hospital. Nowadays, due to the changing needs for infirmary places, the Administration considered that there was a need to conduct a review of the planning ratio.

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73. The Committee further enquired whether:

- the planning ratio had ever been reviewed in the past two decades; and
- the Hospital Authority had commenced the review.

74. The **Chief Executive, Hospital Authority** informed the Committee that:

- the planning ratio had not been reviewed since its adoption in 1981. The setting of the ratio involved discussions among several relevant sectors and reaching a consensus with the Government. The numbers of acute beds and infirmary beds should also be covered in the review; and
- the Hospital Authority had not commenced the review of the provision of infirmary places. It was aware of the changing circumstances of the welfare sector and the change in the mode of service provision. It considered that now was the appropriate time to conduct the review.

75. As the Chief Executive, Hospital Authority considered that now was the appropriate time to review the planning ratio, the Committee asked the Secretary for Health, Welfare and Food about the timetable and the direction of the review.

76. The **Secretary for Health, Welfare and Food** advised that:

- during the time of the Medical and Health Department, the ratio was set on the basis of a rough estimate of the number of the patients in the hospitals who needed to receive long-term care. According to the analysis at that time, 85% of such places were allocated to elderly persons. It was therefore considered reasonable to express the ratio in terms of the number of beds required for the elderly population;
- as far as the direction of the review was concerned, the Administration would review the planning of infirmaries within one year. The review would cover the services at C&A homes, nursing homes and infirmaries; and
- the first part of the exercise was to review the provision of housing services for the elderly in the next few months. The second part was to implement a central registration system within one year. The third part was to review the provision of infirmary care within one year. However, it might not be

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possible, as the first step, to transfer the infirmary care function to the SWD. The Administration needed to rationalise and re-engineer many services in respect of the implementation of the “continuum of care” concept and to enhance care services.

77. In paragraph 4.20(b) of the Audit Report, the Chief Executive, Hospital Authority said that there were on average 12,000 new stroke patients admitted to public hospitals each year. About 10% of these patients would result in severe disability requiring care up to the infirmary level. As at 31 March 2001, the actual provision of infirmary places reached only 1.5 places per 1,000 elderly persons aged 65 or over, as shown in Figure 7 of the Audit Report. The average waiting time in the past few years was three to four years. Many applicants passed away while waiting for the places. In view of the growing demand for residential services for the elderly and the significant shortage of infirmary places, the Committee asked the Secretary for Health, Welfare and Food to elaborate on the direction of the review.

78. The **Secretary for Health, Welfare and Food** said that:

- coordination would be required between the provision of infirmary care and the implementation of the “continuum of care” concept. The delineation of respective responsibilities in long-term care would not be too clear. The Administration needed to establish some yardsticks for determining the delineation. However, under certain circumstances, elderly residents at RCHEs would require hospitalisation. The Administration would reduce, as far as possible, the need for referral of the residents to the hospital; and
- most of the applicants on the CIWL were receiving other services. As they were relatively frail, their remaining life span on average was mostly about one and a half years to two and a half years.

79. In view of the complexity of the issues involved on the subject of residential services for the elderly, the Committee wondered whether the Secretary for Health, Welfare and Food would be able to accomplish the various tasks within one year. The **Secretary for Health, Welfare and Food** was confident that the tasks could be completed within one year. He further stated in his letter of 16 July 2002, in **Appendix 25**, that the Administration had set a work plan for the next 12 months, as follows:

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- the Administration would formulate and implement a plan to phase out self-care hostels and HFAs, and to better meet the needs of these elderly persons by matching them promptly to appropriate services, such as community care and support services and housing assistance. The plan had been endorsed by the Elderly Commission and would start later in 2002;
- the Administration would implement a central registration system for subsidised long-term care services, i.e. both community and residential care services currently provided under the social welfare system. This would obviate the need for elderly persons to wait-list on different queues, sometimes managed by different agencies, for different services. Appropriate services would be assigned to elderly persons in accordance with the care needs as assessed by the standardised care need assessment tool which the Administration introduced in November 2000. It would complete this task within one year;
- to better address the needs of both healthy and frail elderly persons, as well as carers and the community at large, the Administration planned to rationalise and re-engineer a wide spectrum of existing community care and support services in light of the outcome of a consultancy study on the provision of community care and support services conducted in 2000. These included home help teams, home care and meal teams, social centres and multi-service centres. According to the proposed work plan, rationalisation would start to take place from March 2003;
- to achieve continuum of care in residential care, all contract homes put out for open tendering would include such a requirement. The Administration also planned to provide additional places, in new contract homes, for elderly persons whose health conditions necessitated their admission to nursing homes to help reduce waiting time for nursing homes. The Administration had invited tenders for three homes on 12 July 2002 and each of these would contain a portion of subsidised places for such elderly persons; and
- as regards the provision of infirmary beds, the Administration would conduct a review covering the basis of planning, the changing needs for infirmary beds, and the role of the Hospital Authority in the provision of such beds. It would also examine the feasibility of providing infirmary care in a non-hospital setting to achieve cost-effectiveness and continuum of care for the elderly in the long-term care system.

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80. Noting the Secretary for Health, Welfare and Food's undertaking to implement a work plan by July 2003, the Committee asked whether the Administration could put forward some indicators on the provision of residential services for the elderly. The **Secretary for Health, Welfare and Food** agreed that policy indicators must be established. He hoped that the indicators would be established upon the implementation of a central registration system for subsidised long-term care services.

81. The Committee further asked:

- whether there were any existing indicators or yardsticks for measuring the performance in the provision of residential services for the elderly and the Administration's current performance as measured by these indicators or yardsticks; and
- what the Administration's thinking was on the types of indicators that were likely to be adopted a year later.

82. The **Secretary for Health, Welfare and Food** stated in his letter of 16 July 2002 that:

- the Administration considered that the planning ratio of five infirmary beds per 1,000 population aged 65 or above which was set over 20 years ago was no longer appropriate and that it should review the planning basis for the provision of infirmary beds;
- there had been significant developments in the provision of medical and care services for frail elderly persons. The Hospital Authority, which was established in 1991, conducted reviews at three to five-year intervals on the requirement of different types of hospital beds, including infirmary beds, on a territory-wide basis. In this context, the Administration set a target in 1997-98 to provide an additional 1,000 infirmary beds in the next five years. It was on schedule in meeting this target. By March 2003, the ratio of infirmary beds would be increased to four per 1,000 elderly persons; and
- as for indicators for the provision of residential services for the elderly, the Administration set out every year its initiatives and targets for the coming year in the Policy Address booklet on "Care for Elders". In addition to residential services, the 2001 Policy Address booklet covered other services for the elderly, such as financial support, housing, community care and support, active and healthy ageing and support for vulnerable elderly persons.

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83. In view of the information provided by the Secretary for Health, Welfare and Food, the Committee invited the Director of Audit's comments on the following:

- the ratio of four infirmary beds per 1,000 elderly persons by March 2003; and
- if only the infirmary beds designated for CIWL applicants were taken into account, by March 2003, what the ratio of infirmary beds per 1,000 elderly persons would be.

84. The **Director of Audit** advised the Committee in his letter of 5 August 2002, in *Appendix 26*, that

- in his letter of 24 May 2002, the Secretary for Health, Welfare and Food had informed the Committee that the planning ratio of five infirmary beds per 1,000 elderly persons aged 65 or over was adopted by the MDAC of the former Medical and Health Department in 1981. Audit subsequently requested the Health, Welfare and Food Bureau for a copy of the related MDAC paper, which had not been made available to Audit during the audit review. According to the MDAC Paper No. 15-1980/81, the planning ratio was set in 1981 in the context of the hospitalised patients. On this basis, the estimated ratio of four infirmary beds per 1,000 elderly persons by March 2003 would appear to be acceptable. However, it should be noted that applicants on the CIWL would need to wait for about 39 months before being admitted to infirmaries; and
- if only the infirmary beds designated for the CIWL were taken into account, by March 2003, the ratio of infirmary beds per 1,000 elderly persons aged 65 or over would be 1.5.

85. The Committee understood from the Director of Social Welfare's reply of 23 May 2002 that the Director could foresee major difficulties for the SWD to secure further additional resources on its own to take care of infirm elderly persons in the welfare setting. The Committee enquired about the difficulties and the shortfall in the funding required.

86. The **Director of Social Welfare** informed that the Committee that:

- the Administration had completed a study at the end of 2001 on frailty of the elderly residents at the subsidised C&A homes. About 1,400 elderly residents were assessed by the Hospital Authority's geriatric outreach team as requiring infirmary level care;

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- the Government had since 1986 adopted an interim and stopgap measure to ensure that it would enhance care services for elderly persons whose frailty was quite serious but who could not be accommodated in the hospital setting. Since then, some C&A homes gradually set up infirmary units, each of which offered 20 places. The annual subsidy for a place at the C&A home was more than \$49,000, which included an additional subsidy of more than \$4,000 for an elderly person in need of infirmary care service;
- in 1994, the Government had appointed a working group to reconsider the situation. The working group subsequently proposed to set up six nursing homes providing a total of 1,400 places. Hence, the Government decided that C&A homes would stop setting up infirmary units. Instead, the SWD would pay an Infirmary Care Supplement of \$5,695 a month to a nursing home for maintaining a frail elderly person residing there, and who was in need of infirmary care service; and
- in 1995-96, the SWD was able to grant the Infirmary Care Supplement to each elderly person in C&A homes who had been assessed as requiring infirmary level care. However, as more and more elderly persons living in C&A homes were similarly assessed and the SWD could not secure additional resources, it was allocating the Infirmary Care Supplement on a pro-rata basis to the homes concerned. For 2002-03, there was a shortfall of about \$22 million of Infirmary Care Supplement for maintaining 360 frail elderly persons.

87. In view of inadequate funding for Infirmary Care Supplement provided by the SWD, the Committee enquired whether, before the completion of the review of the provision of infirmary care, the Administration would consider allocating additional funding to the SWD to make up for all or part of the shortfall.

88. In his letter of 24 October 2002, in *Appendix 27*, the **Secretary for Health, Welfare and Food** replied that:

- the Infirmary Care Supplement had been introduced as a top-up provision in subvented C&A homes to take care of elderly persons assessed to require infirmary care. The Infirmary Care Supplement enabled these elderly persons to remain in the same home while receiving more intensive care. As more and more elderly persons living in C&A homes were assessed to require infirmary level care and the total number of such elderly person often exceeded the number of supplements available, the practice adopted in recent

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years was to allocate the Infirmary Care Supplement on a pro-rata basis to the homes concerned. However, given the funding available at \$29.75 million, which was equivalent to about 476 supplements, i.e. \$62,508 per case per year at current prices to top up the Government's subvention to C & A homes, the Infirmary Care Supplement funding was allocated on a pro-rata basis to 56 subvented C&A homes with elderly persons at infirmary care level. These elderly persons might continue to wait-list at the CIWL for admission to infirmary beds under the Hospital Authority; and

- no additional funding had been earmarked in the 2002-03 financial year for Infirmary Care Supplement. Given fiscal constraints, the Administration did not envisage additional funding for the supplement in the coming financial year. The Administration would conduct a comprehensive review of the provision of infirmary care in the next 12 months with a view to better addressing the needs of elderly persons assessed to require infirmary level care in the current economic environment. In the meantime, the SWD would review the existing arrangements for allocation of Infirmary Care Supplement to ensure that subsidised residential care homes looking after frail elderly persons would have an equitable share of the resources available.

Recent developments

89. It was stated in the Secretary for Health, Welfare and Food's letter of 24 May 2002 that although the Administration had not yet formulated any proposal for introducing a means-test system, it was examining options to help it target resources at elderly persons with genuine needs, e.g. the option of setting up a new subsidy arrangement. The Committee enquired about progress made by the Administration in this regard.

90. The **Secretary for Health, Welfare and Food** informed the Committee in his letter of 20 January 2003, in **Appendix 28**, that the Administration was at an early stage of its deliberation on various options that helped to target resources at elderly persons with genuine needs, including the option of developing a fee assistance scheme to allow elderly persons to have more choices and flexibility in using residential care services. After the Administration had formulated proposals, it would consult the relevant parties, including the LegCo.

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91. The Committee also enquired:

- about progress made by the Administration in implementing the work plan; and
- whether the Health, Welfare and Food Bureau had commenced discussions with the Hospital Authority and the SWD about the problem of allocation of resources between them regarding the provision of infirmary care.

92. In the same letter, the **Secretary for Health, Welfare and Food** stated that:

- since the first public hearing, the SWD had taken action to draw up a detailed plan to phase out self-care hostels and HFAs and was now putting it in place. Since 1 January 2003, the SWD had ceased to put elderly persons approaching its offices for such services on a waiting list for admission to self-care hostels and HFAs. Instead, caseworkers were required to assess their needs and refer them for appropriate services immediately. To facilitate service referral, the SWD had published a guidebook providing comprehensive information on the range of financial, housing, community care and support services available to elderly persons. For the about 5,600 elderly persons currently on the waiting list of the self-care hostels and HFAs, caseworkers would review all the cases over the next six months with a view to ascertaining the genuine welfare needs of the applicants and offering them promptly community care and support services and housing assistance as appropriate. The SWD would shortly write to all these elderly persons on the waiting list providing them with a copy of the above-mentioned guidebook for reference;
- the SWD was upgrading its computer system to facilitate the implementation of a centralised registration system of both residential and community services. The Administration aimed to put the new system in place in the latter half of 2003;
- the re-engineering exercise consisted of the revamping of centre-based services and the upgrading of home-based services. Existing social centres for the elderly and multi-service centres for the elderly would be upgraded to neighbourhood elderly centres and district elderly community centres respectively to provide expanded functions to elderly persons and the community. Existing home help teams would also be upgraded to integrated home care services teams to provide enhanced personal and nursing care services to frail elderly persons. The Administration had achieved satisfactory results in the re-engineering exercise. The revamped centre-based and upgraded home-based services would commence in phases within 2003-04;

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- for the three contract RCHEs which the Administration invited tenders in July 2002 providing over 280 subsidised places in total, about half of these places were designated for elderly persons whose health conditions necessitated their admission to nursing homes. The Administration would continue to pursue the concept of “continuum of care” in RCHE premises supplied by the Government which would be put out for tender in future; and
- the transfer of infirm care from hospital to non-hospital setting was a complex issue which required detailed study. Not all infirm patients could be transferred from the hospital to a non-hospital setting. In the context of the review, the Health, Welfare and Food Bureau was examining with the Hospital Authority, the SWD and the DH the criteria to identify elderly persons who needed to be taken care of in the hospital setting. In the meantime, the SWD had taken steps to extend the allocation of Infirm Care Supplement to frail elderly persons receiving subsidised service in private RCHEs under the Enhanced Bought Place Scheme. The revised system ensured more equitable distribution of the limited resources and would also enable the Administration to gain a better idea of the total number of elderly persons requiring infirm care. This information would be useful in its further deliberation of the issue.

93. Conclusions and recommendations The Committee:

Provision of subsidised care and attention (C&A) home places

- expresses concern that:
 - (a) there are significant disparities in the service levels in terms of minimum area per resident and staff requirements between subvented C&A home places and C&A home places under the bought-place schemes; and
 - (b) as at May 2002, the waiting time for admission to subvented residential care homes for the elderly (RCHEs) was 34 months, whereas that for home places provided under the bought-place schemes was 10 months only;
- acknowledges that the Social Welfare Department (SWD):
 - (a) has embarked on a major programme to secure purpose-built RCHE premises from various sources; and

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- (b) has commissioned the Hong Kong Association of Gerontology to undertake a two-year project to develop and establish an accreditation system for RCHes in Hong Kong so as to ensure the delivery of quality care and continuous improvement;
- urges the Director of Social Welfare to:
 - (a) take further action to reduce the disparity in the waiting time for admission to a subvented C&A home and a bought-place home;
 - (b) take further action to ensure that the level of services provided in bought-place homes is comparable to that in subvented homes;
 - (c) inform the applicants for C&A home places of the estimated waiting time for a place in different types of C&A homes when they submit their applications; and
 - (d) periodically inform the applicants of the current estimated waiting time so as to enable them to make an informed choice of the type of C&A home;

Phasing out of subsidised home for the aged (HFA) places

- expresses serious concern that, despite the Government's acceptance of the Elderly Commission's recommendations in September 1998 to phase out HFA places, the SWD was still accepting applications for HFA places and placing them on the waiting list for the service;
- acknowledges that:
 - (a) the SWD has stopped building HFAs and is taking action to convert existing HFA places into C&A home places as far as practicable;
 - (b) since 1 January 2003, the SWD has ceased to accept applications for self-care hostels and HFAs; and
 - (c) all the cases (about 5,600 elderly persons) on the waiting list of self-care hostels and HFAs will be reviewed over the next six months with a view to ascertaining the genuine welfare needs of the applicants and offering them promptly community care and support services and housing assistance as appropriate;

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- urges the Director of Social Welfare to:
 - (a) ensure that there are sufficient complementary services, such as home help service, to meet the needs of potential applicants for care, upon ceasing acceptance of new applications for HFA places;
 - (b) transfer applicants on the waiting list for HFA places to the waiting list for C&A home places if they meet the admission criteria;
 - (c) expedite the conversion of the premises of those HFAs which have been identified as suitable for upgrading to C&A homes; and
 - (d) find alternative uses for the premises of those HFAs which are not suitable for conversion to C&A homes;

Provision of Housing for Senior Citizens (HSC) units by the Housing Authority

- expresses serious concern that:
 - (a) as at 31 March 2001, of the 9,383 HSC units provided by the Housing Authority to elderly persons, 887 units were vacant, resulting in wastage of housing resources;
 - (b) as at 30 April 2002, 294 of the 887 units were still vacant, and 439 new HSC units were completed in July and August 2002; and
 - (c) as at 30 November 2002, among the 439 new HSC units, 22 were let to and 226 units were under offer to non-elderly applicants;
- notes that the Housing Authority:
 - (a) had decided in November 2000 to stop further production of HSC units having regard to the elderly's preference for self-contained small units, and concentrate on building more self-contained small flats for the elderly; and
 - (b) endorsed in November 2001 the letting of HSC units to non-elderly applicants on the Waiting List and other rehousing categories;

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- acknowledges that:
 - (a) the Director of Housing has taken measures to promote the last batch of new HSC units, including posting notices in the housing estates and neighbouring estates concerned to publicise the units, allocating the units according to the elderly applicants' preferred districts and arranging group visits by such applicants to the new HSCs; and
 - (b) as at 30 November 2002, the total number of vacant HSC units was 144;
- urges the Housing Authority to:
 - (a) formulate a strategy for the provision of self-contained small flats for self-reliant elderly persons; and
 - (b) determine, in collaboration with the Secretary for Health, Welfare and Food and the Secretary for Housing, Planning and Lands, a suitable planning ratio for the provision of small flats for self-reliant elderly persons;

Provision of subsidised nursing-home and infirmary places

- expresses dismay that:
 - (a) as at 31 March 2001, there were 5,218 elderly persons on the waiting list for infirmary places, who on average needed to wait for 31 months;
 - (b) as at 31 March 2001, the provision of 1,134 infirmary places by the Hospital Authority for Central Infirmary Waiting List applicants was well below the demand for such places;
 - (c) even if 338 additional infirmary beds will be made available for Central Infirmary Waiting List applicants by March 2003, there will still be a significant shortfall in the supply of such beds;
 - (d) without going through proper consultation and a proper policy revision process, the Administration regards that the planning ratio of five infirmary places per 1,000 elderly persons is no longer appropriate;
 - (e) the provision of 1,400 nursing-home places by non-governmental organisations under Government subvention only represented 1.9 nursing-home places per 1,000 elderly persons aged 65 or over; and

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- (f) as at 31 March 2001, there were 4,729 elderly persons on the waiting list for nursing-home places;
- expresses deep regret and sadness that more than 7,000 elderly persons passed away in the years 1997-98 to 1999-2000 while waiting for infirmary places;
- notes that:
 - (a) some of the applicants on the Central Infirmary Waiting List are already receiving some form of home and community services;
 - (b) the Secretary for Health, Welfare and Food has undertaken to implement, by July 2003, a work plan which will include:
 - (i) implementing a central registration system for subsidised long-term care services;
 - (ii) rationalising and re-engineering a wide spectrum of existing community care and support services;
 - (iii) providing additional places, in new contract RCHEs, for elderly persons whose health conditions necessitate their admission to nursing homes; and
 - (iv) conducting a review covering the basis of planning, the changing needs for infirmary beds and the role of the Hospital Authority in the provision of such beds;
 - (c) the Director of Social Welfare considers that any delineation of respective responsibilities in long-term care should be accompanied by the corresponding budget transfers from the Hospital Authority to the SWD; and
 - (d) the Secretary for Health, Welfare and Food considers that there is a need to discuss with the Hospital Authority and the SWD the problem of allocation of resources between them regarding the provision of infirmary care;
- acknowledges that the Administration has made progress, as follows, in implementing the work plan as at January 2003:

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- (a) the SWD is upgrading its computer system to facilitate the implementation of a centralised registration system of both residential and community services;
 - (b) the revamped centre-based and upgraded home-based services will commence in phases within 2003-04;
 - (c) for the contract RCHEs which the Government invited tenders in July 2002 providing over 280 subsidised places, about half of these places are designated for elderly persons whose health conditions necessitate their admission to nursing homes; and
 - (d) the Health, Welfare and Food Bureau is examining with the Hospital Authority, the SWD and the DH the criteria to identify elderly persons who need to be taken care of in the hospital setting;
- urges the Administration to:
 - (a) decide, in conducting the review, whether infirmary care should be provided in the welfare setting instead of in the hospital setting;
 - (b) allocate additional funding to the SWD to make up for all or part of the shortfall of about \$22 million of Infirmary Care Supplement for maintaining 360 frail elderly persons; and
 - (c) conduct proper consultation, including that with the Legislative Council (LegCo), regarding the long-term policy on care for the elderly;
- acknowledges that the SWD:
 - (a) is not pursuing further nursing-home developments;
 - (b) will invite tenders for operating new RCHEs with built-in facilities for taking care of the elderly when their health conditions deteriorate; and
 - (c) has made available on its homepage the average waiting times for various types of residential care services and is updating the information on a quarterly basis;

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Government's financing of subsidised residential services for the elderly

- expresses concern that the monthly cost of \$8,918 for a place at a subvented C&A home is 42% higher than the monthly cost of \$5,163 for a place under the SWD's tender exercise conducted in July 2001;
- acknowledges that:
 - (a) the SWD will adopt open-tender arrangements for the provision of subsidised C&A home services at all new purpose-built homes in the future; and
 - (b) the Elderly Commission has suggested that the Government and subvented organisations should first take care of needy elderly persons who lack the means, while self-financing and private organisations should provide services of better quality to give choices to those who can afford;
- notes that:
 - (a) although the Administration has not yet formulated any proposal for introducing a means-test system, it is examining options to help it target resources at elderly persons with genuine needs, including the option of developing a fee assistance scheme; and
 - (b) the Administration will consult the parties concerned, including the LegCo, after it has formulated proposals;
- urges the Secretary for Health, Welfare and Food to:
 - (a) expeditiously conduct a comprehensive review of the arrangements for providing subsidised residential services for the elderly with a view to increasing the number of subsidised residential places to meet the increasing needs of the elderly. The review should take into account:
 - (i) the significant difference between the cost of subvented homes and the cost obtained by the SWD through the recent open tender exercises;
 - (ii) the cost-effectiveness of different options for providing residential services to the elderly, which include obtaining the services by open tenders, reducing the operating costs of subvented homes, and paying subsidies directly to the elderly;

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- (iii) the practices in advanced countries in providing similar welfare services to the elderly;
 - (iv) the demand on public resources due to an increasing need for elderly services in Hong Kong; and
 - (v) the Elderly Commission's suggestion; and
- (b) conduct proper consultation, including that with the LegCo, in the review;

Licensing and monitoring of RCHEs

- expresses concern that:
 - (a) the inspectorate teams of the SWD sometimes did not use standard inspection reports in inspecting RCHEs;
 - (b) the inspectorate teams of the SWD sometimes did not comply with the SWD's required frequencies of inspections of RCHEs; and
 - (c) the SWD's manual system for monitoring the performance of RCHEs is not efficient and effective;

Monitoring of healthcare services of RCHEs

- expresses serious concern that:
 - (a) many health workers and care workers working at RCHEs have inadequate knowledge of how to deal with some commonly encountered healthcare and emergency situations;
 - (b) some RCHEs were not equipped with adequate healthcare facilities;
 - (c) the two Nursing Officers of the SWD cannot effectively monitor the 671 RCHEs providing 58,146 places;
 - (d) under the existing requirements, there is no assurance that, between 6:00 pm and 7:00 am each day, a C&A home is staffed with those who have received proper and recognised healthcare training; and

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- (e) some RCHEs do not accept the offer of the Visiting Health Teams (VHTs) of the DH to conduct healthcare education programmes for them;
- urges the Director of Social Welfare to:
 - (a) take action to amend the Residential Care Homes (Elderly Persons) Regulation so that at all times at least one staff member who has received recognised training in healthcare is on duty in a C&A home;
 - (b) in collaboration with the DH, provide more training to health workers and care workers in RCHEs;
 - (c) seek the support of the VHTs of the DH for strengthening the healthcare-service inspections of RCHEs, such as by secondment of staff and provision of professional advice; and
 - (d) seek clarification as to whether the SWD is empowered under the Residential Care Homes (Elderly Persons) Ordinance to authorise the VHTs to provide appropriate training courses to the staff of RCHEs; and

Follow-up actions

- wishes to be kept informed of:
 - (a) the progress of the supply of purpose-built RCHE premises;
 - (b) the progress made in developing the accreditation system for RCHEs;
 - (c) further actions taken to reduce the disparity in the waiting time for admission to a subvented C&A home and a bought-place home and to ensure that the level of services provided at bought-place homes is comparable to that at subvented homes;
 - (d) the actions taken to inform the applicants for C&A home places of the estimated waiting time for a place in different types of C&A homes when they submit their applications and to periodically update them on the current estimated waiting time;
 - (e) the progress made in phasing out subsidised HFA places;

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- (f) further actions taken by the Director of Housing to improve the utilisation of vacant HSC units;
- (g) the progress made in implementing a strategy and determining a suitable planning ratio for the provision of self-contained small flats for self-reliant elderly persons;
- (h) further progress made in implementing the work plan on the provision of subsidised long-term care services and the actions taken to address the problem of allocation of resources between the Hospital Authority and the SWD regarding the provision of infirmary care;
- (i) the progress made in implementing the recommendations on periodic inspections by the inspectorate teams of the SWD as mentioned in paragraph 6.29 of the Audit Report and those on the monitoring of subsidised residential services for the elderly by the SWD as mentioned in paragraph 7.13 of the Audit Report; and
- (j) the progress made in implementing the recommendations on the monitoring of healthcare services of RCHEs as mentioned in paragraphs 8.32 (c) and 8.33 of the Audit Report.

Chapter 2

The Customs and Excise Department's efforts to protect government revenue from dutiable commodities

Audit conducted a review to examine the efforts of the Customs and Excise Department (C&ED) to protect the Government's revenue from dutiable commodities and to ascertain whether there were areas for improvement in the C&ED's performance. As 88% of the duty revenue collected in 2001-02 was from hydrocarbon oil and cigarettes, the audit focused on these two dutiable commodities.

2. Prior to the public hearing, the C&ED submitted a paper, in *Appendix 29*, providing supplementary information regarding its responses to the Director of Audit's major recommendations on the subject. At the hearing, **Mr Raymond WONG Hung-chiu, Commissioner of Customs and Excise**, made an opening statement. He said that:

- he appreciated the Director of Audit's efforts in conducting a comprehensive and in-depth review of the C&ED's efforts to protect government revenue from dutiable commodities. The C&ED would seriously take follow-up actions on Audit's recommendations. In fact, it had already implemented some of these recommendations;
- in view of the extremely frequent cross-boundary movements of people and cargo, the C&ED had to combat all forms of smuggling activities on one hand and spare no efforts in facilitating flows of people and cargo on the other hand. The C&ED faced the challenge of finding the proper balance between its two roles;
- protection of government revenue from dutiable commodities was a very complicated and difficult task. The C&ED had all along been endeavouring to perfect its various monitoring systems and enforcement measures and had carried out quite a few significant reforms in the past few years for more effective protection of government revenue. Having said that, the C&ED had realised through the audit review that there were areas for improvement in its performance in protecting government revenue;
- the issue of abuses of cigarette duty-free concessions mainly concerned the measures adopted by the C&ED in processing inbound travellers. In recent years, the number of inbound travellers passing through the Lo Wu Control Point had been increasing rapidly. Currently, there were almost 130,000 incoming travellers each day. In order to handle the huge daily passenger flow with the limited manpower, the C&ED had adopted a set of strategies based on the analysis of intelligence, the concept of risk management and the support of advanced technology. Taking the Lo Wu Control Point as an example, Customs officers, apart from checking travellers at customs examination counters, made verbal enquiries with travellers, checked travellers and baggage by using metal detectors, X-ray scanners and ion-scanners and conducted dog-sniffing checks on travellers;

The Customs and Excise Department's efforts to protect government revenue from dutiable commodities

- to further improve the hit rate, the C&ED, apart from enhancing the collection of intelligence, regularly carried out the “Yellow Bird Operation”. In the operation, plain-clothes officers would be deployed to conduct surveillance at the Lo Wu Control Point, including the duty-free shops and the railway station concourse. The aim was to detect those travellers who did not declare excessive quantities of cigarettes. Although such efforts were little known to the public, they were effective in detecting contraband goods. For instance, between January and October 2002, about 570,000 sticks of undeclared cigarettes had been seized, with 120 persons under arrest and 180 persons fined in the cases concerned. In addition, there were a total of 162 cases, which involved drugs totalling more than \$4 million, as well as 59 piracy cases in which more than 40,000 pirated compact discs were seized;
- the C&ED agreed with the Director of Audit's view that improvements were needed in areas such as the monitoring of sales activities at the duty-free shops, the enforcement of the 24-hour rule for duty-free concessions and the baggage examination procedures. Hence, the C&ED was conducting a comprehensive review in this regard;
- the C&ED had drawn up a comprehensive action plan to combat the use of illicit fuel in motor vehicles. On the supply side, the C&E had sought the cooperation of the oil companies to check suspicious fuel buyers and, if necessary, would deploy Customs officers to oil depots to check the end use of fuel. On the sale side, the C&ED, in conjunction with other enforcement agencies such as the Hong Kong Police Force (HKPF) and the Fire Services Department, conducted large-scale raids from time to time on illegal detreating plants and filling stations. On the use side, the C&ED selected vehicles for road-side checking and used advanced equipment to test the fuel on the spot. After years of continued efforts, illicit fuel activities were now largely under control. In the light of the latest circumstances surrounding the use of illicit fuel, the C&ED would continue to clamp down on the illicit activities; and
- the C&ED fully agreed with other recommendations made by the Director of Audit, such as those on the implementation of the Open Bond System, the C&ED's audit on oil companies and the monitoring and measurement of the C&ED's performance, and would implement them at an appropriate time.

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Abuses of cigarette duty-free concessions

3. According to paragraph 3.10 of the Audit Report, during the visits in June and July 2002, Audit staff observed the sales activities at the two duty-free shops at the Arrival Hall of the Lo Wu Terminal Building. A total of 72 transactions were observed before 5 July 2002, i.e. before the new duty-free concession of 60 cigarettes for each local resident came into effect. According to paragraph 3.11(d), Audit staff noted that only on two occasions were the customers' requests challenged by the sales staff. The Committee understood from paragraph 3.9 that as the duty-free shops on the Hong Kong side were operated under licences granted by the C&ED, the licensee was required, under the licence conditions, to ascertain the status of the travellers and ensure that the quantities of dutiable goods sold to an arrival traveller should not exceed his or her entitled duty-free concession. Moreover, the invoices should contain the customer's name and the quantities of goods sold. The Committee further noted from paragraph 3.14 that according to the "Guidelines and Procedures on Crowd Control System and Operating Arrangement", the operator of the duty-free shops had to ensure that each transaction could be completed in five seconds in order to avoid obstructions to passenger flow.

4. It appeared to the Committee that there was a conflict between the licence conditions imposed on the operator of the duty-free shops and the five-second requirement. It seemed that it was not practicable to require the licensee to complete all the procedures within the five seconds allowed for each transaction. The Committee enquired whether it was a requirement imposed by the Kowloon-Canton Railway Corporation (KCRC) on the operator of the duty-free shops.

5. The **Commissioner of Customs and Excise** replied that the duty-free shops were in the KCRC premises. The operator of the shops was the KCRC's tenant. He understood that the KCRC had imposed the five-second requirement as a condition on the tenant.

6. In view of the above reply, the Committee further asked whether:

- the five-second requirement was also a term in the Licence Agreement between the KCRC and the operator of the duty-free shops at the Arrival Hall of the Lo Wu Control Point;
- the "Guidelines and Procedures on Crowd Control System and Operating Arrangement" had been devised by government departments;

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- the status of the Guidelines, specifically its binding effect; and
- the consequences faced by the operator of the duty-free shops for non-compliance with the Guidelines.

7. In his letters of 19 December 2002 and 15 January 2003, in *Appendices 30 and 31* respectively, the **Commissioner of Customs and Excise** advised that:

- the C&ED had received confirmation from the KCRC that the five-second requirement was not a term in the Licence Agreement between the KCRC and the Duty Free Shop at the Lo Wu Terminal. The requirement had been issued by the KCRC as part of a set of operational guidelines for the inbound duty-free business at the Lo Wu Terminal. Its main purpose was to facilitate smooth customer flow and avoid queuing up outside the premises;
- the “Guidelines and Procedures on Crowd Control System and Operating Arrangement” had been devised by the Lo Wu Management Committee comprising the Immigration Department (ImmD), the C&ED, the HKPF and the KCRC. The Duty Free Shop operator had undertaken to observe and comply with these guidelines; and
- the KCRC had confirmed that the Guidelines had no legal status in relation to the Licence Agreement between KCRC and the Duty Free Shop and was not legally binding on the latter. As such, there would not be any legal consequences faced by the Duty Free Shop for not complying with the Guidelines.

8. Noting the need for crowd control and the control of passenger flow, the Committee asked:

- the Director of Immigration to comment on the practicability of the five-second requirement; and
- whether the requirement would be reviewed.

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9. **Mr Raymond LAI Tung-kwok, Director of Immigration,** and the **Commissioner of Customs and Excise** said that:

- from the ImmD's point of view, it certainly hoped that passenger flow was smooth and there were no obstructions; and
- the C&ED would carefully examine whether the licensee was allowed sufficient time under the five-second requirement to complete a transaction in full compliance with the relevant licence conditions. If it was found to be impossible to complete a transaction in five seconds, the C&ED would discuss with the government departments concerned and review the requirement.

10. In the light of the Director of Immigration's above response, the Committee asked the Director to elaborate on the impact of the five-second requirement on passenger flow at the Lo Wu Control Point. The **Director of Immigration** said that:

- there were 7,000 incoming travellers per hour. The problem concerned not only the time allowed for each transaction of dutiable goods but also the behaviour of the travellers. The ImmD was not able to predict the number of travellers who would buy cigarettes at the duty-free shops; and
- the ImmD as well as other government departments were concerned about crowd control at the Lo Wu Control Point. In view of the already huge passenger flow, any obstructions would have a chain effect. Not only would there be long queues waiting for immigration clearance, but also the queues might extend back to the Mainland side, directly impacting on cross-border passenger flow.

11. In response to the Committee's enquiries about the C&ED's review, the **Commissioner of Customs and Excise** informed the Committee that:

- the C&ED was reviewing the licence conditions for the duty-free shops with a view to ensuring that they were effective in protecting government revenue from dutiable commodities. The direction of the review was to trim down the licence conditions as far as possible so that the operator of the duty-free shops would be able to comply with the revised conditions. The C&ED appreciated that cumbersome procedures might result in prolonged transactions; and

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- the C&ED would conduct the review expeditiously and inform the Committee of the outcome or major recommendations of the review.

12. The **Commissioner of Customs and Excise** informed the Committee of the outcome of the review, in his letter of 15 January 2003. He said that:

- the C&ED had completed its review of the licence conditions for the Duty Free Shop at the Lo Wu Terminal. In the review, it had carefully examined all measures to achieve a good balance between the need for revenue protection and the need for facilitating a smooth flow of the huge volume of incoming passengers at the Terminal. It had revised some of the licence conditions to ensure that they were both effective and practicable;
- before implementing the revised licence conditions, the C&ED had consulted the Duty Free Shop and the Department of Justice to ensure that they could be followed in practice and that they were legally proper. A set of guidelines had also been provided to the Duty Free Shop to assist its sales staff in complying with the revised licence conditions. After implementation, on-site inspections had confirmed that the Duty Free Shop was complying with the revised licence conditions without difficulty. The C&ED would continue to closely monitor the sales activities of the Duty Free Shop to ensure its compliance with the revised licence conditions; and
- with the introduction of the revised licence conditions, a transaction for the sale of duty-free cigarettes over the sales counter at the Duty Free Shop at the Lo Wu Terminal could now be completed within five seconds. Hence, it was considered no longer necessary to review the five-second requirement. Nonetheless, the C&ED would continue to closely monitor the sales activities.

13. The Committee noted from the Commissioner of Customs and Excise's letter of 15 January 2003 that under the new licence conditions, if the dutiable goods sold by the licensee exceeded the prescribed quantity, the licensee was required to deliver and hand over the dutiable goods to the passenger in the presence of a Customs officer stationed at the Customs and Excise Duty Payment Office, Lo Wu Terminal. The Committee enquired:

- whether the handing over of dutiable commodities under the new licence conditions took place before the passenger went through arrival clearance;
- whether the Customs and Excise Duty Payment Office functioned as a separate retail outlet from the duty-free shops; and

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- about the details of the procedures in respect of the requirement for the licensee to deliver and hand over the dutiable goods to the passenger in the presence of a Customs officer, specifically the information on:
 - (a) the functions of the Customs officer stationed at the Customs and Excise Duty Payment Office; and
 - (b) whether the Customs officer was required to inspect the passport or travel document of the passenger and, if so, whether the inspection was conducted on every single passenger.

14. The **Commissioner of Customs and Excise** informed the Committee vide his letter of 28 January 2003, in *Appendix 32*, that:

- when the quantity of cigarettes to be purchased by a customer exceeded the duty-free concession, the duty-free shop would issue the customer with an invoice after receiving payment and inform the customer to proceed, through the Immigration counters, to the Customs and Excise Duty Payment Office at the Customs area for duty payment and collection of the cigarettes. Where necessary, the duty-free shop would supply a map to the customer showing how he or she could proceed to the Payment Office;
- at the same time, the duty-free shop would arrange for a staff member to deliver the cigarettes to the Payment Office, which was not another sales outlet, and wait for the customer there. When the customer showed up, the staff member of the duty-free shop would present the cigarettes purchased by the customer to the Customs officer at the Payment Office;
- the Customs officer would then assess duty on the cigarettes. Duty would only be levied on the quantity of cigarettes in excess of the duty-free concession. In suspicious cases, the Customs officer might need to inspect the customer's travel document in order to verify whether the customer had met all the requirements for enjoying the duty-free concession. The customer could collect the cigarettes after payment of duty; and
- this requirement was a measure for the protection of revenue and the duty-free shops had been consulted before its implementation. As the Payment Office was away from the duty-free shop and such occasions were very rare in practice, this arrangement should not cause any congestion in the arrival halls of the Lo Wu Terminal.

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15. To ascertain the practicability of the five-second requirement under the revised licence conditions for the duty-free shops at the Lo Wu Terminal, the Committee invited the Director of Audit to comment on the issue.

16. The **Director of Audit** advised in his letter of 28 January 2003, in *Appendix 33*, that:

- to obtain a better understanding of the implementation of the revised licence conditions, Audit staff had visited the Lo Wu Control Point on 24 January 2003, interviewed the Customs Officer-in-charge and, in his presence, observed on the spot how the revised conditions were applied in practice. Audit staff had also obtained for scrutiny a copy of the new Procedural Guidelines, which supplemented the licence conditions to help the licensee comply with the new licence conditions;
- based on the findings during the visit, he had come to the view that, in terms of practicability, the new licence conditions represented a significant improvement over the previous ones. His main findings were as follows:
 - (a) according to the new licence conditions, the licensee needed not ascertain the status of the customers if their purchases did not exceed the duty-free concessions for local residents. Audit noted that for these purchases, which constituted the vast majority of the transactions, it was possible for the sales staff to complete a transaction in five seconds;
 - (b) if a customer's purchase exceeded the duty-free concession for local residents but did not exceed that for visitors, before selling the goods to him, the licensee was required to ask the customer to prove his visitor status. While it might take more than five seconds to complete the transaction, in Audit's view, this process was necessary to help prevent abuses of duty-free concessions; and
 - (c) if a customer's purchase exceeded the duty-free concession applicable to his resident status, the customer concerned would be asked to go to the Customs and Excise Duty Payment Office to pick up the goods. The dutiable goods would then be delivered to the Payment Office and handed over to the customer in the presence of a Customs officer. The purpose of this arrangement was to ensure that duties were duly assessed and collected. According to the Customs officer in charge of the Lo Wu Control Point, the whole process could take about ten minutes to complete, but so far there had not been any such a transaction. Despite

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the much longer time required to complete the transaction, in Audit's view, this process was necessary for the proper assessment and collection of government revenue; and

- the new licence conditions, supplemented by the Procedural Guidelines, should reduce the risks of abuses of duty-free concessions at source. However, strict compliance with items (b) and (c) above was necessary to ensure the effectiveness of the new procedures.

17. The Committee noted from paragraph 3.8 of the Audit Report that for inbound travellers at the Lo Wu Control Point, duty-free shops were located on both the Mainland side and the Hong Kong side. Travellers could buy duty-free cigarettes from these shops after departure clearance on the Mainland side or before arrival clearance on the Hong Kong side. The Committee pointed out that if the licensee fully complied with the licence conditions mentioned in paragraph 3.9, inbound travellers would prefer buying duty-free cigarettes at the duty-free shops on the Mainland side at which the sales staff neither ask them questions about their status nor ask them to give their names. In this case, the duty-free business on the Hong Kong side would suffer, and abuses of cigarette duty-free concessions would be mainly detected by intercepting travellers for customs checking. As such, the Committee enquired whether the C&ED could seek the cooperation of the Shenzhen authority to tighten the control on the sale of duty-free cigarettes on the Mainland side.

18. The **Commissioner of Customs and Excise** responded that:

- it was the C&ED's responsibility to prevent abuses of cigarette duty-free concessions. Hence, in response to Audit's recommendation on the 24-hour rule for duty-free concessions and after discussion with the ImmD, the C&ED would install at the Lo Wu Control Point a computer workstation which was linked to the ImmD's database. Customs officers could verify with the ImmD in suspicious cases to confirm whether the travellers had been away from Hong Kong for more than 24 hours; and
- according to international practice, restrictions were normally not imposed by duty-free shops on departing passengers regarding the purchase of duty-free cigarettes. Thus the Shenzhen authority was not responsible for enforcing the relevant Hong Kong legislation on behalf of the C&ED. He could discuss the matter with the Shenzhen authority but could not undertake that it would have positive results. He had no authority to demand that the control on the sale of duty-free sales be tightened on the Mainland side.

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19. According to paragraph 3.26 of the Audit Report, in 1991, the Commissioner of Customs and Excise imposed the 24-hour rule under which local residents returning to the territory after an absence of less than 24 hours would not qualify for duty-free concessions. However, as the Home Visit Permit would eventually be replaced by the Home Visit Card, the 24-hour rule would be more and more difficult to uphold. The Committee asked whether there was a need to review the 24-hour rule.

20. **Hon Frederick MA Si-hang, Secretary for Financial Services and the Treasury**, said that:

- in the past, Hong Kong residents used the Home Visit Permit for travels to the Mainland. Customs officers could rely on the date chop on the traveller's Home Visit Permit for verification of the traveller's claim about his duration of stay outside Hong Kong. With the introduction of the Home Visit Card, the C&ED could still check the departure date of a traveller through the ImmD, but the process would take longer time; and
- the Administration would review the policy concerning the 24-hour rule for duty-free concessions. It would take into account the need to protect government revenue and the need to enforce the 24-hour rule.

21. The Committee enquired about the reasons for retaining the 24-hour rule. The **Commissioner of Customs and Excise** replied that in many places in the world, inbound travellers were entitled to duty-free concessions. The 24-hour rule introduced in 1991 only applied to Hong Kong residents returning to the territory. In the light of the circumstances at that time, the aim was to prevent "itinerant traders" from bringing back duty-free cigarettes from the Mainland to Hong Kong several times a day.

22. The Committee pointed out that the 24-hour rule was specified in the Dutiable Commodities (Exempted Quantities) Notice made under the Dutiable Commodities Ordinance. The Commissioner of Customs and Excise had been empowered to make decisions to revise the rule. The **Commissioner of Customs and Excise** responded that as the issue concerned protection of government revenue, he might not be able to make a decision on his own.

23. Referring to C&ED's plan to install a computer workstation at the Lo Wu Control Point to facilitate its speedy verification with the ImmD on the duration of a traveller's absence from Hong Kong, the Committee enquired about the details of the proposed mechanism.

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24. The **Director of Immigration** provided the tentative proposal by the C&ED on the mechanism vide his letter of 14 December 2002, in *Appendix 34*. The Director said that comments from the Privacy Commissioner for Personal Data and the Independent Commission Against Corruption (ICAC) on the proposed mechanism were being sought.

25. Noting the C&ED's proposed installation of three workstations at its offices at Lo Wu, Lok Ma Chau and the Hong Kong-Macau Ferry Terminal, the Committee considered that there was a need to protect personal data and prevent abuse on the use of the facility. The Committee therefore enquired:

- about the safeguards against the possible abuse on the use of the facility;
- about the timetable for the implementation of the verification mechanism; and
- whether the C&ED would consult the relevant LegCo Panel on the issue of protection of personal data in relation to the implementation of the mechanism.

26. In his letter of 25 January 2003, in *Appendix 35*, the **Commissioner of Customs and Excise** stated that:

- to enable the C&ED to effectively enforce the 24-hour rule in relation to the duty-free concession for incoming passengers, it was now putting in place an on-line communication arrangement between the C&ED and the ImmD. Under the arrangement, three computer workstations dedicated for limited on-line enquiry function were installed at the C&ED's offices at the Lo Wu Control Point, the Lok Ma Chau Control Point and the Hong Kong-Macau Ferry Terminal to enable the C&ED to make verification with the ImmD in suspicious cases, e.g. couriers seen crossing the Lo Wu Terminal several times a day. The C&ED would not conduct such verification on every incoming passenger;
- upon an on-line enquiry through one of the workstations, an authorised C&ED officer of the rank of Inspector or Senior Inspector would see on the screen of the workstation a "Yes" or "No" which indicated whether an incoming passenger travelling on a Hong Kong identity card had spent more than 24 hours or less outside Hong Kong. Apart from this information, the workstations would not allow any enquiry to be made on personal data of any kind and there would be no release of personal data either;

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- the C&ED and the ImmD had consulted the Office of the Privacy Commissioner for Personal Data (PCO), the ICAC and the Department of Justice when formulating the operating procedures for the new arrangement. All measures on protection of personal data and prevention of abuse on the use of the facility, including those suggested by the PCO and the ICAC, had been incorporated into the finalised procedures;
- installation work of the workstations at the three control points had been completed. The C&ED intended to implement the verification mechanism by the end of February 2003; and
- the C&ED's operating procedures had contained sufficient safeguards for protecting the personal data collected under this new arrangement and preventing abuse on the use of the facility. Notices would be put up at all control points to inform passengers of their rights under the Personal Data (Privacy) Ordinance. The C&ED would also widely publicise the arrangement through the mass media before it commenced using the verification mechanism.

27. The Committee invited Audit's comments on the new verification mechanism proposed by the C&ED. In his letter of 28 January 2003, in **Appendix 36**, the **Director of Audit** commented that the new verification mechanism would enable the C&ED to enforce the 24-hour rule more effectively. In particular, he welcomed the C&ED's proposal to widely publicise the new verification mechanism through the mass media before its commencement. In his view, the C&ED's efforts would have a definite deterrent effect on the couriers and other habitual abusers. More importantly, it would help the otherwise law-abiding citizens better understand the 24-hour rule.

28. Referring to the summary of comments from the PCO in the Commissioner of Customs and Excise's letter of 25 January 2003, the Committee sought the Privacy Commissioner for Personal Data's comments on whether the C&ED's response therein had adequately addressed the suggestions made by the PCO on the protection of personal data and the prevention of abuse on the use of the facility.

29. The **Acting Privacy Commissioner for Personal Data** advised in his letter of 29 January 2003, in **Appendix 37**, that the PCO welcomed the C&ED's response to its comments. The Acting Privacy Commissioner also made suggestions on certain items stated in Part B of Annex IV of the Commissioner of Customs and Excise's letter.

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30. In his letter of 5 February 2003, in *Appendix 38*, the **Commissioner of Customs and Excise** informed the Committee that in response to the suggestions of the Acting Privacy Commissioner for Personal Data in his letter of 29 January 2003, the C&ED had consulted the PCO again and revised its operating procedures for the new verification mechanism accordingly.

31. The Committee understood from paragraph 3.19 of the Audit Report that during the visits paid in June and July 2002, Audit staff observed the activities at selected customs examination counters and, in particular, noted the number of inbound travellers intercepted for checking during the periods under observation. Audit staff reported that of the 36,420 travellers passing through the selected counters, 322, i.e. 0.88%, were intercepted for customs checking. The Committee further noted from paragraph 3.20 that the small percentage of travellers intercepted for checking was at variance with the C&ED's performance data which showed that 10% of the travellers were checked. The Committee enquired about the reasons for the variance and the international standard in respect of the percentage of travellers intercepted for customs checking.

32. The **Commissioner of Customs and Excise** explained that:

- the performance data of 10% came from the internal data on the performance of the Control Points Command. The number of travellers checked, as shown by the C&ED's performance data, included not only the number of travellers intercepted for checking at the customs examination counters, but also the number of travellers processed through other means. For instance, the C&ED had deployed more narcotics sniffer dogs to the Lo Wu Control Point. The data on "dog-sniffing" operations was also included in the performance data of the C&ED. In response to Audit's recommendation on the C&ED's preparation of records on the number of travellers checked, he had issued an instruction to capture the breakdown of such data. Front-line officers were required to input the data in a timely manner; and
- in line with international practice, the C&ED adopted a risk management approach in processing travellers. There was no norm in respect of the percentage of customs checking. Moreover, the percentage varied from one control point to another due to different numbers of travellers and different levels of manpower resources.

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33. In the light of the above reply, the Committee asked:

- about the current number of narcotics sniffer dogs and the success rate in the detection of smuggling and drug trafficking activities; and
- whether the C&ED had planned to increase the number of narcotics sniffer dogs.

34. The **Commissioner of Customs and Excise** informed the Committee in his letter of 6 January 2003, in *Appendix 39*, that currently, the C&ED had 25 narcotics sniffer dogs. In 2001 and 2002, seven drug seizures with a total value of \$2 million had been detected by the sniffer dogs. The C&ED planned to increase two specially trained dogs in 2003 for detection of bombs and explosives.

35. The Committee understood that the “Yellow Bird Operation” was a means to prevent abuses of the duty-free concessions by travellers bringing excessive duty-free cigarettes into Hong Kong. According to the Commissioner of Customs and Excise’s response in paragraph 3.35(1) of the Audit Report, successful cases had been effected. The Committee enquired about the number of such operations conducted since the release of the Audit Report.

36. The **Commissioner of Customs and Excise** replied that the C&ED had conducted about ten such operations every month. The team concerned, apart from combating cigarette smuggling, were also required to discharge other anti-smuggling duties.

37. Paragraph 3.18 of the Audit Report stated that customs control activities at the Lo Wu Control Point were conducted on a selective basis. The Committee enquired:

- about the criteria for and guidelines on sample selection for customs checking;
- whether C&ED had set performance targets on the daily average number of inbound travellers to be intercepted for checking by a Customs officer and the daily percentage of the number of inbound travellers intercepted for checking against the number of inbound travellers passing through the customs examination counters; and

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- the percentage, for each day of the month of November 2002 at the Lo Wu Control Point, of inbound travellers intercepted for checking, the daily number of Customs officers deployed for this purpose, and the daily average number of travellers checked by each Customs officer.

38. The **Commissioner of Customs and Excise** stated in his letter of 6 January 2003 that:

- the C&ED adopted a risk management approach in processing passengers at various control points. Internal guidelines had been distributed to front-line officers to assist them in applying risk indicators for passenger selection. Such risk indicators included a passenger's behaviour and physical appearance, passport information, and the type and content of baggage he or she was carrying. Prevailing smuggling trends and methods and the background of a particular passenger would also be important elements to assist the Customs officers' judgement; and
- selection of a passenger for checking was an individual assessment based on the experience of a Customs officer. Therefore, the C&ED had not set any performance target on the number of passengers to be selected for customs checking.

The Commissioner also provided the operational statistics for the month of November 2002 vide his letter.

39. Turning to Audit's recommendation on the imposition of adequate penalties on abusers of duty-free concessions mentioned in paragraph 3.34(i) of the Audit Report, the Committee asked whether the C&ED would consider imposing heavier penalties on such abusers so as to increase deterrence.

40. The **Commissioner of Customs and Excise** responded that:

- under the Dutiable Commodities Ordinance, if a traveller declared to the Customs officers that he was in possession of excessive cigarettes, he or she would be allowed to pay the duty or surrender the cigarettes to customs. If a traveller was found to have made a false declaration, he or she would be prosecuted or fined under the "Compounding Scheme". Currently, the maximum penalty was very heavy, which was a fine of \$1 million and two years' imprisonment; and

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- the C&ED had recently introduced a new Customs clearance mode. The pilot run of "Customs Clearance Cubicle" had been launched at the Hong Kong-Macau Ferry Terminal. The C&ED was exploring ways to improve the mode of declaration in the context of the new Customs clearance mode. It would examine the need to provide a special channel for declaration of dutiable goods by travellers.

Monitoring and measurement of the C&ED's performance in tackling cigarette smuggling

41. As revealed in paragraph 4.7 of the Audit Report, the Anti-Illicit-Cigarette Task Force (AICTF), now comprising 84 officers, was dedicated to tackle all forms of cigarette smuggling activities. According to paragraph 4.13, 44 of the posts might be deleted in April 2003. The Committee enquired:

- about the effectiveness of the AICIF in combating cigarette smuggling; and
- how the C&ED would cope with the possible reduction of anti-smuggling resources.

42. The **Commissioner of Customs and Excise** replied that:

- as far as C&ED's enforcement action against street-peddling activities was concerned, the AICTF had arrested 502 sellers in 2000, 658 sellers in 2001 and 751 sellers in the first ten months of 2002. As regards arrests of buyers of illicit cigarettes, 98 persons, 131 persons and 109 persons had been arrested in 2000, 2001 and the first ten months of 2002 respectively; and
- regarding the 44 posts for the AICTF, they had been created on a temporary basis for a period of three years. Given the overall fiscal stringency, the C&ED would not be allocated resources to retain the 44 temporary posts. In addition to regular deployment of staff of other Commands in some large-scale operations, the C&ED would deploy the Special Task Force to assist in combating street-level peddling activities.

43. The Committee was concerned about a possible increase in cigarette smuggling activities consequent upon the reduction of anti-smuggling resources. The **Commissioner of Customs and Excise** responded that:

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- combating illicit sale of cigarettes at street level, illicit fuel activities and pirated optical discs business would remain the priorities in the C&ED's enforcement actions. He would ensure optimal deployment of resources as far as possible and hoped that effectiveness of the actions would not be reduced following the deletion of the 44 posts for the AICTF; and
- although the Government was facing fiscal constraints, he, as Head of Department, had the responsibility to do his best with the resources available.

Illegal vehicle refuelling activities

44. On the problem of illicit use of synthetic motor spirit, the Committee noted from the paper submitted by the C&ED before the public hearing that the C&ED had launched an action plan on 25 November 2002 to strengthen the effectiveness of actions against the illicit activities. Within a week from 25 November 2002, oil companies only registered sales of 240,000 litres of rubber solvent, toluene and xylene, which were the ingredients for making synthetic motor spirit. Paragraph 6.11 of the Audit Report revealed that the C&ED was aware that there were a few chemical companies which had bought drums of such chemicals and repacked them into small tins for local use as cleansing agent and solvent. It was estimated that each month, 20,000 to 30,000 litres of such chemicals would be sufficient for local industrial use.

45. It appeared to the Committee that a high percentage of the locally consumed rubber solvent, toluene and xylene were still being illegally used for making synthetic motor spirit after the implementation of the action plan. It wondered whether the C&ED was able to combat the widespread misuse of the chemicals.

46. **Mr CHOW Oi-tung, Assistant Commissioner (Intelligence and Investigation)**, replied that:

- since 25 November 2002 and after seeking cooperation from the oil companies, Customs officers were deployed to oil depots to check the end use of the chemicals. If the backgrounds of the purchasers of these chemicals were found to be doubtful, Customs officers would escort the chemicals to the declared destinations; and

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- following the implementation of the above measures, there were clear indications that sales of the chemicals had dropped substantially. The C&ED considered that the actions had contained the problem of the misuse of the chemicals. As the C&ED had collected information on the end use of the chemicals, it would make continued efforts to tackle the problem.

47. The Committee further enquired whether Customs officers would escort the chemicals to the declared destinations in all cases. The **Assistant Commissioner (Intelligence and Investigation)** explained that many purchasers were aware of the new measures and gave up the purchases, which represented a substantial volume of sales. As regards purchases claimed to be for legal uses, Customs officers would escort the chemicals to the declared destinations. There were not many such cases.

48. Turning to the C&ED's efforts in tackling illicit oil refuelling activities, the Committee noted from paragraph 6.16 of the Audit Report that in one case, the C&ED had since 1998 conducted 35 raids on an illegal detreating plant with underground storage tanks. As at July 2002, the C&ED believed that the plant was still operating actively. However, it was stated in the C&ED's paper that according to the C&ED's latest intelligence, all illegal detreating plants with underground storage tanks had ceased operation. The Committee wondered why the C&ED had not been able to remove the detreating plant after the 35 raids.

49. The **Assistant Commissioner (Intelligence and Investigation)** explained that in the past, the major difficulty was the complicated network of the underground storage tanks. After the C&ED blocked the tanks in a raid, the operator would re-open the detreating plant. In the 36th raid, the C&ED, in conjunction with the HKPF, deployed more than 400 officers. The HKPF sent a search team to assist in the operation and used radars to obtain a full picture of the network of all the tanks. Hence, the C&ED was able to completely block all the tanks. The operator could no longer use the site to operate the detreating process. The operation was very successful. According to intelligence from various sources, the plant had now ceased operation.

50. The Committee further asked why the C&ED had not sought the cooperation of the HKPF in earlier raids. The **Assistant Commissioner (Intelligence and Investigation)** responded that:

- the C&ED had set up an Intelligence and Investigation Branch on 2 July 2002, which enabled the C&ED to deploy manpower more flexibly and strengthen the collection of intelligence; and

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- the C&ED had all along sought the cooperation of the HKPF in various operations. The raid on the detreating plant on 16 September 2002 was of the largest scale, which resulted in the removal of the plant.

51. Conclusions and recommendations The Committee:

Abuses of cigarette duty-free concessions

- expresses concern:
 - (a) that because of the small percentage of travellers intercepted for checking at the customs examination counters, abusers of cigarette duty-free concessions could easily escape customs detection;
 - (b) that the Customs and Excise Department (C&ED) did not monitor the sales activities at the duty-free shops to ensure compliance with the licence conditions;
 - (c) about the practicability of requiring duty-free shops to complete each transaction in five seconds as specified in the "Guidelines and Procedures on Crowd Control System and Operating Arrangement";
 - (d) about the slow progress made by the C&ED in implementing the measures identified in the February 2000 departmental paper for enforcing the 24-hour rule; and
 - (e) that the existing baggage examination procedures at the customs examination counters have little deterrent effect on abusers of duty-free concessions, because the procedures allow abusers to escape penalty even if they are intercepted at the counters for checking;
- acknowledges that:
 - (a) the C&ED has revised the licence conditions for the duty-free shops to ensure that the new procedures implemented from 1 January 2003 are effective and practicable under the five-second requirement; and
 - (b) the C&ED, with the assistance of the Immigration Department (ImmD), will implement new measures to enforce the 24-hour rule and has completed the installation work of the workstations at the three control points, with a view to obtaining speedy confirmation with the ImmD on the duration of a traveller's absence from Hong Kong;

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- urges the Commissioner of Customs and Excise to:
 - (a) closely monitor the sales activities at the Lo Wu duty-free shops to ensure compliance with the new procedures;
 - (b) consider implementing the measure of routing day-trippers through a special channel, with a view to facilitating risk-based customs checking of inbound travellers, effective enforcement of the 24-hour rule and the imposition of adequate penalties on abusers of duty-free concessions;
 - (c) consult the Legislative Council on the proposed mechanism for verification of the duration of a traveller's absence from Hong Kong and, upon implementation of the mechanism, publicise the details of the mechanism and travellers' rights under the Personal Data (Privacy) Ordinance;
 - (d) notwithstanding the need to prevent, detect and deter abuses of cigarette duty-free concessions, ensure that any new measures to be adopted are enforceable and will not cause obstructions to passenger flow; and
 - (e) conduct a comprehensive post-implementation review of the new procedures associated with the revised licence conditions for duty-free shops and of the new verification mechanism at an appropriate time;

Illegal vehicle refuelling activities

- expresses concern that:
 - (a) there are indications of a widespread misuse of rubber solvent and toluene for making synthetic motor spirit, and that the C&ED had faced difficulties in its enforcement against such misuse;
 - (b) the C&ED had encountered difficulties in closing down and removing illegal detreating plants with underground storage tanks. For instance, in one case, an illegal detreating plant was still operating actively after the 35 raids conducted since 1998 by the C&ED;
 - (c) the turnover of marked oil had tripled from 3 billion litres in 1997 to 9 billion litres in 1999, and that although the turnover had subsequently gone down to 5 billion litres in 2001, it was still much higher than the turnover in 1997; and

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- (d) even if the percentage of the marked oil sold by oil companies and diverted to illegal use as vehicle fuel was small, the revenue loss suffered by the Government could be substantial;
- acknowledges:
 - (a) that the C&ED launched an action plan in November 2002 to strengthen the effectiveness of actions against the illicit use of synthetic motor spirit;
 - (b) that an inter-departmental working committee, led by the C&ED, was set up in April 2002 to address the problem of illegal detreating plants with underground storage tanks;
 - (c) that the C&ED, in conjunction with the Hong Kong Police Force, successfully launched a large-scale raid in September 2002 to remove the illegal detreating plant on which the C&ED had previously conducted 35 raids, and that according to the intelligence as at early December 2002, all the illegal detreating plants had ceased operation;
 - (d) the Commissioner of Customs and Excise's assurance that, to detect illegal users, the C&ED will continue to take various control measures to prevent the illegal use of marked oil and will conduct verification exercises (similar to the one mentioned in items (e) and (f) of Table 4 in paragraph 6.21 of the Audit Report) on a regular basis; and
 - (e) the Commissioner of Customs and Excise's undertaking that the C&ED will study the control system in the United Kingdom to see whether it is feasible to adopt it in Hong Kong;
- urges the Commissioner of Customs and Excise to continue the actions on controlling the sale and use of those chemicals that can be used as ingredients for making synthetic motor spirit;

Fuel oil duty-free concessions for cross-boundary vehicles

- expresses concern that under the existing duty-free arrangement, cross-boundary goods vehicles bring into Hong Kong an estimated 679 million litres of Mainland diesel a year, which far exceeds their estimated operational needs of 236 million litres a year;

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- acknowledges the Commissioner of Customs and Excise's assurance that the problem of illicit transfers of Mainland diesel from cross-boundary vehicles to local vehicles is under control, and that the C&ED will make sustained efforts to prevent possible resurgence of the problem;
- notes the comments of the Secretary for the Environment, Transport and Works that there are no strong environmental grounds for reducing the duty-free concessions at this time, and that she will consider the need for reducing the concessions on environmental grounds in the light of the effectiveness of the C&ED's enforcement actions;
- urges the Commissioner of Customs and Excise and the Secretary for the Environment, Transport and Works to remain vigilant in managing the risk of illicit transfers of Mainland diesel, having regard to the fact that the quantity brought into Hong Kong by cross-boundary vehicles far exceeds their operational needs and that there is a significant price difference between Mainland and Hong Kong diesels;

Other audit findings

- supports Audit's recommendations in paragraphs 2.16, 2.25, 4.14 and 5.11 of the Audit Report;
- urges the Commissioner of Customs and Excise to expeditiously follow up Audit's recommendations; and

Follow-up actions

- wishes to be kept informed of the progress made in:
 - (a) preventing, detecting and deterring abuses of cigarette duty-free concessions, including:
 - (i) the results of the post-implementation review of the new procedures associated with the revised licence conditions for the duty-free shops; and
 - (ii) the results of the post-implementation review of the new verification mechanism;
 - (b) combating illegal vehicle refuelling activities;

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- (c) managing the risk of illicit transfers of Mainland diesel; and
- (d) implementing Audit's recommendations in paragraphs 2.16, 2.25, 4.14 and 5.11 of the Audit Report.

Chapter 3

Special Finance Scheme for small and medium enterprises

On 24 August 1998, the Government launched the Special Finance Scheme for small and medium enterprises (the Scheme) to help small and medium enterprises (SMEs) which were creditworthy, had a good track record and were able to demonstrate business prospects to obtain adequate financing from lending institutions. Under the Scheme, the Government acts as a guarantor for loans to SMEs approved by participating lending institutions (PLIs). On default of the guaranteed loans, the Government makes payments to the PLIs to honour the guarantees. The Director of Accounting Services is responsible for the administration of the Scheme.

2. Audit conducted a review on the implementation of the Scheme to examine whether:

- there were adequate safeguards to ensure that the granting of guarantees to SMEs was consistent with the objective of the Scheme and whether the Government's interest had been adequately protected; and
- the existing arrangement for writing off irrecoverable guarantee payments was satisfactory.

No safeguard against the offloading of loans onto the Scheme

3. Paragraph 1.5 of the Audit Report stated that upon commitment of all the funds available for the Scheme in March 2000, the Government had stopped offering new guarantees. Paragraph 1.6 revealed that as at 29 August 2002, the Default Rate for Expired or Released Guarantees was 7.6%. The Treasury had processed claims for 548 defaulted guaranteed loans and was processing the claims which the PLIs had submitted for 1,446 defaulted guaranteed loans. According to paragraph 2.40, the Director of Accounting Services agreed with Audit's recommendation that the Treasury should examine claims being processed and re-examine claims already paid, to ascertain whether the PLIs concerned had breached any requirement stipulated in the deed signed between the Government and the PLI (the Deed).

4. Against this background, the Committee enquired about the default position as at 6 December 2002 and the actions that the PLIs concerned had taken to recover the defaulted guaranteed loans.

5. **Mr SHUM Man-to, Director of Accounting Services**, in his letter of 17 December 2002 in *Appendix 40*, provided the information, as follows:

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Default Rate for Expired or Released Guarantees :	7.54%
Number of defaulted guaranteed loans	
paid	574
being processed	<u>1,351</u>
	1,925
	=====
Total amount of guaranteed payments (\$million)	
made to PLIs	\$277.9
less amount recovered	<u>16.4</u>
	\$261.5
	=====

The Director also said that, after receiving the Government's compensation, the PLIs were required to continue their recovery actions, including legal actions where necessary, against the SMEs concerned. Any money recovered by the PLIs was shared between the PLIs and the Government according to the agreed risk-sharing factor.

6. **Mr TSANG Chi-hung, Assistant Director of Accounting Services**, said that:

- there were another 80 to 90 guarantee cases in which the PLIs concerned might submit claims if the loans were in default. Thus, there would be a total of 2,000 cases of defaulted guaranteed loans at the most; and
- the Treasury would examine or re-examine all the claims for such loans and, if necessary, seek professional advice from the Department of Justice and the Hong Kong Monetary Authority (HKMA). It would take about one year to complete the examination of the more than 1,300 cases being processed. However, in the course of examination of each claim, if the Treasury had doubts about the circumstances relating to the case, it would request the PLI concerned to provide the relevant details. If the Treasury considered that the PLI had breached any requirement in the Deed, it would inform the PLI that the Government would not make the guarantee payment. In this case, the PLI would normally argue with the Treasury over the decision.

7. Referring to the claims for the more than 1,300 defaulted guaranteed loans being processed by the Treasury, the Committee enquired:

- about the number of the SMEs concerned which had been declared bankrupt or had applied for liquidation; and

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- whether the PLIs had foreseen in their assessment of the creditworthiness of the SMEs that the guaranteed loans to these SMEs would eventually become defaulted loans.

8. In his letter of 17 December 2002, the **Director of Accounting Services** informed the Committee that:

- under the Deed, a PLI could submit to the Government a claim for compensation when an SME had failed to repay a loan on maturity, irrespective of whether or not the SME had become bankrupt or liquidated. After receiving compensation from the Government, the PLI was required to continue its pursuit of repayments from the SME until further recovery efforts against the SME were considered futile, e.g. when the SME had become bankrupt, liquidated or untraceable. As the 1,351 claims as at 6 December 2002 had not yet been paid by the Government because they were being checked or additional information was being sought from the PLIs concerned, the Treasury did not have the record yet of the number of SMEs out of these 1,351 cases which had been or would be declared bankrupt or had applied for liquidation; and
- the Treasury was not aware of any PLIs which had foreseen in their assessments of creditworthiness that their loans to the SMEs concerned would eventually become defaulted loans. However, in reply to a standard questionnaire designed by the Trade and Industry Department, some PLIs had indicated that they would not have approved the loans in the absence of a guarantee from the Government.

9. In response to the Committee's request, the **Director of Accounting Services** provided a copy of the Deed and a list of the PLIs associated with the defaulted guaranteed loans vide his letter of 17 December 2002.

10. Upon the Committee's further request, the **Director of Accounting Services** provided further information on the PLIs associated with the defaulted guaranteed loans, showing:

- the total number of loans granted by each PLI against the total number of guaranteed loans granted under the Scheme and the total amount of such loans granted by each PLI;

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- the percentage of the total amount of defaulted loans of each PLI against its total amount of the guaranteed loans under the Scheme; and
- the PLIs which belonged to the same group of companies.

11. Based on the above further information, it appeared to the Committee that among the few PLIs which had granted a large number of guaranteed loans under the Scheme, the ratio of the defaulted amount of the loans was high. The Committee therefore enquired with the Chief Executive, HKMA about the industry norm for the default rate of loans granted by lending institutions, specifically the average default rate and the range of such default rate.

12. The **Head (Banking Development), HKMA** advised in his letter of 31 December 2002, in *Appendix 41*, that:

- the HKMA did not have statistics on “default rate” of loans granted by lending institutions. One alternative indicator was the level of non-performing loans of retail banks in Hong Kong, which was 4.13%, 4.41% and 5.03% for the quarters of September, June and March 2002 respectively; and
- the HKMA was unable to provide the figures relating to the range of “non-performing loans” to the Committee because this would involve disclosure of information of individual banks, which was prohibited under section 120 of the Banking Ordinance.

13. The Committee noted from paragraph 2.32 of the Audit Report that to ascertain whether the PLIs had approved guaranteed loans to SMEs which did not satisfy all the three criteria of being creditworthy, having a good track record and being able to demonstrate business prospects, to repay existing loans granted by them, Audit had selected from the Treasury’s records a number of cases for study. The Committee asked the Director of Audit about the total number of cases selected and how the cases had been selected.

14. **Mr Dominic CHAN Yin-tat, Director of Audit**, replied that Audit had selected 100 defaulted guaranteed loan cases at random. It found that in 11 cases, the PLIs had offloaded bad loans onto the Scheme. The six cases illustrated in the Audit Report were examples of Audit’s findings.

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15. Noting the findings of Audit's study of the six cases, the Committee asked whether the Treasury had detected in the defaulted guaranteed loans irregularities similar to those indicated in Audit's findings.

16. The **Director of Accounting Services** informed the Committee in his letter of 17 December 2002 that:

- the Treasury had noticed other cases where borrowers were reported to be in financial difficulties similar to those described in the six cases. There were also cases where the PLIs had transferred existing loans to the Scheme. The Treasury had previously referred many such cases to the Department of Justice, the Commerce, Industry and Technology Bureau (CITB) and the HKMA for consideration. However, as pointed out in paragraph 2.33 of the Audit Report, the Government placed complete reliance on a PLI in the assessment of the creditworthiness of a borrower and there was no restriction in the Deed on the use of the guaranteed loans, including repaying other loans granted by the PLIs; and
- apart from Case study 2 and Case study 3 quoted in the Audit Report, the Treasury had not so far noticed any cases where a guaranteed loan was granted before the date of the Treasury's notification of the result of application.

17. Regarding Case study 2 and Case study 3, the Committee asked whether:

- the granting of the guaranteed loans to the SMEs before the date of the Treasury's notification of the result of application was in breach of the Deed; and
- legal advice had been sought.

18. The **Director of Accounting Services** advised in his letter of 17 December 2002 that the PLI in these two cases had now confirmed in writing that one of the loans concerned was granted on the date of the Treasury's notification of the result of application and the other five days afterwards. The Treasury was seeking further clarification from this PLI. If there was evidence of the practices reported in paragraph 2.32 of the Audit Report, the Treasury would certainly seek legal advice.

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19. The Committee understood from Audit's case studies that in the six cases, the PLIs had not had strong justifications for supporting their assessments at the time of the borrowers' applications for the guaranteed loans that the SMEs were creditworthy. Noting that the objective of the Scheme was to help creditworthy SMEs, the Committee questioned whether there was a departure from the objective in the six cases and enquired about the follow-up actions.

20. The **Secretary for Commerce, Industry and Technology** explained in his letter of 30 December 2002, in *Appendix 42*, that:

- the fundamental objective of the Scheme was to provide relief to SMEs in the face of the unprecedented liquidity crunch in 1998. It was commonly acknowledged that many SMEs were facing severe cashflow problems at the time when the Scheme was launched. Indeed, a lot of them were no longer able to make repayments to existing loans as scheduled. Under the circumstances, the Administration considered that allowing SMEs to restructure their loans was in line with the objective of the Scheme;
- SMEs with overdue repayments were not necessarily unworthy of credit. For the six cases in question, the Administration noted that the PLIs concerned decided to lend to the SMEs because their assessment was that the difficulties of these enterprises were only temporary in nature and could be relieved through loan restructuring. Indeed, a few of these SMEs had managed to repay part of the loan before they subsequently failed to continue doing so; and
- the Administration had made it clear from the start that the Government would rely on the PLI to exercise its usual prudent professional judgement in assessing whether an individual SME was creditworthy. PLIs were bound by the provisions of the Deed signed with the Government that set out the rights and obligations of each party. For the six cases in question, the Director of Accounting Services, in consultation with the Department of Justice, was reviewing them to ascertain whether the PLIs concerned had breached any requirements stipulated in the Deed. The same would also be done for all other claims for compensation under the Scheme. If a PLI was found to have breached the requirements of the Deed, the Government might seek to recover the amount from the PLI for a claim already paid or refuse to make payments for a claim being processed.

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21. Paragraph 2.10 of the Audit Report revealed that soon after the announcement on the launching of the Scheme in June 1998, there were concerns about the possible abuse of the Scheme by the PLIs through the offloading of loans onto the Scheme. From mid-1998 to the end of 1999, there were continuing discussions among bankers, government departments and bureaux, and the HKMA on the adequacy of the safeguards against such abuse.

22. Against the above background, the Committee asked:

- whether the Administration had taken measures to build in sufficient safeguards to prevent the PLIs from offloading bad loans onto the Scheme; and
- whether before the Scheme was launched, the then Trade and Industry Bureau (TIB) had given instructions to the Department of Justice on the drafting of the Deed regarding the prohibition of offloading bad loans onto the Scheme.

23. **Hon Henry TANG Ying-yen, Secretary for Commerce, Industry and Technology**, stated at the public hearing and in his letter of 19 December 2002, in *Appendix 43*, that:

- the Scheme was launched in 1998 when many SMEs were having their credit line cut by Japanese banks in the liquidity crunch following the Asian financial turmoil. The Government hoped to help those SMEs which could demonstrate business prospects to tide over their difficulties. The guaranteed loans under the Scheme were not intended for the repayment of existing loans granted by the same PLIs. Hence, the PLI was required to declare that the applicant had no overdue loan repayments to it for over 60 days in the 12-month period prior to the application. In 1999, the Government completed a review of the Scheme and found that it was difficult for many SMEs to obtain financing under the Scheme due to the “no overdue loan” declaration requirement. As a result, the review report recommended that the requirement be removed;
- he admitted that the SMEs were in financial difficulties at the time of their applications for guaranteed loans under the Scheme. The reason could be that the SMEs were facing the problem of delayed payments by their clients. On the other hand, if an SME had overdue loan repayments to lending institution A but was only allowed to obtain a guaranteed loan from lending institution B, lending institution A might apply to have the SME declared

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bankrupt. Another possible scenario was that if the SME was not allowed to use a guaranteed loan granted by lending institution A to repay an existing loan granted by the same lending institution, lending institution A would not continue to provide financing to the SME. Hence, SMEs would not be able to operate if they were not allowed to use new loans to repay existing loans;

- the operation of the Scheme had been based on four principles, namely market-driven, risk-sharing, risk-capping and administrative simplicity. It was close to an art to achieve a balance between these principles. Moreover, the Government needed to take into account three competing considerations, i.e. the prudent use of public money, the SMEs' facing financial difficulties and complete reliance on the PLIs to assess loan applications; and
- the CITB could find no written record of the TIB giving instructions to the Department of Justice on the drafting of the Deed regarding the prohibition of offloading bad loans onto the Scheme. As described in the Audit Report, the TIB had, however, explained to the relevant parties, including the HKMA and the Treasury, that it considered that the Deed need not be amended to include provisions disallowing the restructuring of loans.

24. In view of the above reply, the Committee asked the Secretary for Financial Services and the Treasury to comment on the offloading of bad loans onto the Scheme. **Hon Frederick MA Si-hang, Secretary for Financial Services and the Treasury**, responded that in order to prevent the borrowers from using new loans to repay existing loans granted by the same lenders when launching similar schemes in the future, a mechanism similar to that of a Chapter 11 Reorganisation provided in the bankruptcy legislation of the United States should be introduced in Hong Kong. Under the mechanism, when a company was in difficulties, its existing loans would be frozen. The operation of the company would only be financed by new loans. Hence, new loans were separated from existing loans.

25. In view of the Secretary for Financial Services and the Treasury's comments, the Committee pointed out that the Administration had introduced the Companies (Corporate Rescue) Bill into the Legislative Council (LegCo) on 23 May 2001. The Bill concerned the introduction of a corporate rescue procedure which would give companies in financial difficulties an opportunity to try to turn around. However, the scrutiny of the Bill had been held in abeyance since December 2001 to allow time for the Administration to act in respect of the concerns of the Bills Committee. The Secretary noted the Committee's observation.

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26. On the question of offloading of loans onto the Scheme, the **Director of Accounting Services** supplemented that in processing applications for the Government's guarantees under the Scheme, the Treasury had acted in accordance with the provisions of the Deed. The Treasury would not have granted guarantee of a loan if the PLI concerned had given any false, fraudulent or misleading information, or had acted in bad faith. Regarding the six case studies conducted by Audit, Audit considered that, at the time of the borrowers' applications for the guaranteed loans, the PLIs did not have strong justifications for supporting their assessments that the borrowers were creditworthy. As this was not in breach of the Deed, the Treasury could not reject the applications on such grounds.

27. Noting the consequences of the absence of a clear provision in the Deed to prohibit the offloading of bad loans onto the Scheme, the Committee asked whether, with hindsight, the Deed should have been revised to introduce additional safeguards against the possible abuse of the Scheme by the PLIs.

28. In his letter of 19 December 2002, the **Secretary for Commerce, Industry and Technology** stated that:

- at the time when the Scheme was devised, the SMEs in Hong Kong were facing severe cashflow problems and were unable to secure financing due to the liquidity crunch. Indeed, many were no longer able to make repayments to existing loans as scheduled. Had the Government stated in the Deed that loan restructuring was disallowed, lending institutions would simply recall the loans and a lot of SMEs would have been forced to wind up their businesses as a result. This would have been against the objective of setting up the Scheme which aimed at relieving the financial hardship of SMEs when Hong Kong was experiencing a particularly difficult time after the Asian financial crisis; and
- in view of the unique liquidity crunch at the time and judging from the encouraging outcome that more than 92% of the loans guaranteed under the Scheme were performing or were fully repaid, the Administration considered that it had made the right decision not to prohibit loan restructuring under the Scheme in the Deed. However, this did not mean that the Administration did not consider it necessary to provide additional safeguards for similar funding schemes when the circumstances were different. Indeed, when the Government launched the SME Business Installations and Equipment Loan Guarantee Scheme in 2001, it had included in the Deed provisions expressly disallowing borrowers and lenders to use the scheme for loan restructuring, partly because of the improved financing environment for SMEs as compared

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to 1998. The Government would continue to devise its SME funding schemes with the aim of striking the right balance between upholding fiscal prudence and providing necessary support to SMEs.

29. The Committee understood that the Government had found it difficult to balance the competing principles or considerations in operating the Scheme. It asked how the Government, when launching similar schemes in the future, could strike a balance between competing considerations relating to the schemes.

30. The **Secretary for Commerce, Industry and Technology** said in his letter of 19 December 2002 that:

- when launching similar schemes in the future, the Government would aim to strike the right balance between achieving the objectives of the schemes (including the market-driven principle), and building in the necessary safeguards to avoid abuse of the schemes. It would also consult widely before deciding on the means that would maximise the usefulness of the schemes while ensuring that public money would be used properly;
- a case in point was the SME Business Installations and Equipment Loan Guarantee Scheme which aimed at helping SMEs obtain loans to acquire business installations and equipment for enhancing their competitiveness. To achieve this objective and ensure that public money was properly spent, the Government had made it clear that SMEs were not allowed to use the scheme to refinance business installations and equipment already in their possession or in the possession of their associates. The Deed signed with the PLIs also expressly disallowed borrowers and lenders to use the scheme to repay, restructure or repack other loan facilities, including doubtful or bad loans;
- the Government would continue to maintain the right balance in implementing the latest recommendations of the SME Committee on enhancing the effectiveness of the SME Business Installations and Equipment Loan Guarantee Scheme; and
- after the launching of any loan guarantee scheme, the Government would continue to closely monitor the performance and effectiveness of the scheme and, if necessary, make adjustments to ensure that it was indeed striking the right balance between competing considerations.

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31. The Committee further enquired about the monthly amount of guarantee offered by the Government in the period leading to the review of the Scheme in December 1998.

32. The **Secretary for Commerce, Industry and Technology** informed the Committee in his letter of 19 December 2002 that:

- the review had recommended, among other things, that :
 - (a) the risk-sharing ratio between the Government and PLIs should be revised from 50:50 to 70:30;
 - (b) the maximum guarantee period should be extended from one year to two years; and
 - (c) the “no overdue loan” declaration should be removed;
- revisions to the Scheme had been endorsed by the Finance Committee (FC) of the LegCo and put in place in late April 1999;
- for the nine months from August 1998 to April 1999, the amount of guarantee approved was about \$856 million. The entire amount of the initial commitment of \$2.5 billion was used up by the end of August 1999, i.e. four months after the implementation of the aforementioned revisions; and
- the monthly breakdown of the number of approved cases and the amount of guarantee approved during the period from August 1998 to April 1999 were as follows :

	Number of approved cases	Amount of guarantee approved
August 1998	0	0
September 1998	93	about \$88 million
October 1998	201	about \$138 million
November 1998	240	about \$161 million
December 1998 (The review was conducted)	196	about \$116 million
January 1999	186	about \$106 million
February 1999	127	about \$57 million
March 1999	228	about \$91 million
April 1999	245	about \$99 million
Total	1,516	about \$856 million

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33. The Committee further enquired about the total number of applications for guaranteed loans under the Scheme during the same period. The **Secretary for Commerce, Industry and Technology** stated in his letter of 31 December 2002, in *Appendix 44*, that during the period from August 1998 to April 1999, the Treasury had received 1,535 applications involving total guarantee amounting to about \$866 million. The monthly breakdown of the number of applications received and the amount of guarantee sought were as follows:

	Number of applications received	Amount of guarantee sought
August 1998	0	0
September 1998	93	about \$88 million
October 1998	201	about \$138 million
November 1998	240	about \$161 million
December 1998 (The review was conducted)	197	about \$117 million
January 1999	188	about \$107 million
February 1999	131	about \$58 million
March 1999	234	about \$93 million
April 1999	251	about \$104 million
Total	1,535	about \$866 million

34. The Committee noted from the discussion paper for the FC meeting held on 23 April 1999, in *Appendix 45*, that the TIB had stated that the 60-day declaration requirement had become a disincentive for the PLIs to make full use of the Scheme. Furthermore, the Secretary for Commerce, Industry and Technology said in his letter of 30 December 2002 that allowing SMEs to restructure their loans was in line with the objective of the Scheme. It appeared to the Committee that under the circumstances, the PLIs had granted guaranteed loans to SMEs more readily, but they had not demonstrated that they had strong justifications for supporting their assessment that the borrowers were creditworthy when they applied for the guaranteed loans. As a result, among the few PLIs which had granted a large number of guaranteed loans, the ratio of the defaulted amount of the loans was high, even when compared to the level of non-performing loans of retail banks for the quarters of September, June and March 2002, i.e. 4.13%, 4.41% and 5.03% respectively.

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35. Against the above background, the Committee enquired whether the Administration had informed the FC of the expected default rate of the guaranteed loans under the Scheme. The **Secretary for Commerce, Industry and Technology** replied that the Administration had made an assumption of a 25% default rate when seeking the FC's funding approval for the Scheme.

36. The Committee was aware that the Administration had submitted three discussion papers on the Scheme to the FC for its meetings held on 31 July 1998, 23 April 1999 and 12 November 1999, in *Appendices 46, 45 and 47* respectively. The Administration had informed the FC vide the paper for the meeting on 31 July 1998 that there was a possibility of the capital commitment for the Scheme not being recovered, in part or in whole. However, it appeared to the Committee that the assumption of a 25% default rate had not been mentioned in any of the three FC papers. The Committee was concerned whether the Administration had revealed all relevant information when seeking the LegCo's funding approval. The **Secretary for Commerce, Industry and Technology** responded that according to his understanding, the 25% default rate had been stated in public.

37. **Mr Raymond YOUNG, Deputy Secretary for Commerce, Industry and Technology**, added that as stated in paragraph 7 of the Administration's paper for the FC meeting held on 12 November 1999, "despite all these measures, there was a possibility that the actual outlay from the Scheme would exceed \$2.5 billion". In other words, the default rate of the guaranteed loans might be as high as 50%.

38. The Committee further enquired whether:

- the Administration had submitted to the LegCo other papers on the Scheme in question; and
- the default rate of 25% had been mentioned in any of those papers.

39. In his letter of 17 December 2002, in *Appendix 48*, the **Secretary for Commerce, Industry and Technology** informed the Committee that the Administration had used the SME Committee's assumption of a 25% default rate of the guaranteed loans under the Scheme in assessing the amount of money to be recouped from the Scheme when the Administration sought the funding approval of the FC for the establishment of four SME funding schemes in October and November 2001. The letter therefore confirmed that the Government's internal assumption of a 25% default rate of the guaranteed loans under the Scheme had not been revealed to the LegCo when it sought funding approval for the Scheme in question.

Special Finance Scheme for small and medium enterprises

40. The Committee understood from Audit's observations in paragraph 2.33(e) of the Audit Report that the Treasury, the HKMA and the Financial Services and the Treasury Bureau had seen the need and made suggestions to prohibit the PLIs from offloading bad loans onto the Scheme. However, the CITB did not agree to add a clause in the Deed prohibiting the offloading of bad loans. The Committee noted from the minutes of the FC meeting held on 23 April 1999, in **Appendix 49**, that during the discussions on the recommendations made in the review of the Scheme, a LegCo Member had expressed concern that some PLIs might use the Scheme to offset other loans acquired by the beneficiaries. In response, the then Director-General of Industry had advised that "as details of the agreement on loan facility was made between PLIs and applicants of the SFS¹, the Administration would not be in a position to know if the guarantee had been used to offset other loans. Nevertheless, the Administration would not provide the necessary guarantee if there was clear evidence indicating that this was the case". The Committee questioned why, despite the LegCo Member's direct question, the then Director-General of Industry had not revealed the numerous concerns raised by the various parties about such possible abuse.

41. The **Secretary for Commerce, Industry and Technology** responded that the then Director-General of Industry had neither hidden the truth on purpose nor been dishonest. The Administration could not have made it clear that it was aware of the possibility of being taken advantage of by the PLIs. As a matter of fact, the default rate of the guaranteed loans under the Scheme was 7.5%. In contrast, the default rate of loans granted by banks normally ranged between 1.2% and 8.9%. This indicated that the Government had managed to strike a balance between competing considerations relating to the Scheme.

42. The Committee pointed out that the crux of the matter was that the Administration, when seeking funding approval from the LegCo, should be frank and honest about all the considerations leading to its decisions. In the present case, the Administration should have made clear to the LegCo that the Administration had put up its recommendations after taking into account all the concerns expressed by the various parties about possible abuse of the Scheme. The **Secretary for Commerce, Trade and Industry** responded that the Administration would make reference to the Committee's views in future.

¹ SFS is the abbreviation of the Special Finance Scheme for small and medium enterprises.

Special Finance Scheme for small and medium enterprises

43. Conclusions and recommendations The Committee:

No safeguard against the offloading of loans onto the Special Finance Scheme for small and medium enterprises (the Scheme)

- expresses dismay that:
 - (a) despite the repeated concerns expressed by some bankers, the Hong Kong Monetary Authority (HKMA), the Treasury and the Financial Services and the Treasury Bureau from mid-1998 to the end of 1999 about the possible abuse of the Scheme by the participating lending institutions (PLIs) through the offloading of bad loans onto the Scheme and the adequacy of the safeguards against such abuse, no specific provisions to restrict such offloading were added to the deed signed between the Government and a PLI (the Deed);
 - (b) the Administration had been economical with the truth when seeking funding approval by the Legislative Council (LegCo), as evidenced by the following:
 - (i) despite a LegCo Member's direct question at the Finance Committee (FC) meeting held on 23 April 1999 about the possibility of some PLIs using the Scheme to offset other loans acquired by the applicants, the then Director-General of Industry did not reveal in his response the concerns of various parties about such possible abuse; and
 - (ii) when seeking the FC's funding approval for the Scheme in 1998, the Administration only informed the FC of the possibility that the capital commitment of the Government under the Scheme would not be recovered, in part or in whole; but it did not reveal the Government's internal assumption of a 25% default rate of the guaranteed loans under the Scheme, which was the default rate assessed by the Small and Medium Enterprises (SME) Committee;
 - (c) the Administration cannot produce any evidence to show that, despite the gravity of the issue and the numerous concerns raised by the various parties, it had taken positive measures to address the issue of offloading bad loans onto the Scheme by including provisions against such offloading in the Deed; and

Special Finance Scheme for small and medium enterprises

- (d) the PLIs had not demonstrated that they had strong justifications for supporting their assessment that the borrowers were creditworthy when they applied for the guaranteed loans, as indicated by the fact that among the few PLIs which had granted a large number of guaranteed loans under the Scheme, the ratio of the defaulted amount of the loans was high, even when compared to the level of non-performing loans of retail banks for the quarters of September, June and March 2002, i.e. 4.13%, 4.41% and 5.03% respectively;
- notes:
 - (a) that for the nine months from August 1998 to April 1999, the amount of guarantee approved by the Government was about \$856 million, and the entire amount of the initial commitment of \$2.5 billion for the Scheme had been used up by the end of August 1999, i.e. four months after the removal of the “no overdue loan” declaration requirement; and
 - (b) the Administration’s views that:
 - (i) the “no overdue loan” declaration requirement was a disincentive for the PLIs to make full use of the Scheme; and
 - (ii) allowing the SMEs to restructure loans was in line with the objective of the Scheme;
- considers that allowing SMEs to restructure their loans is not equivalent to allowing the borrowers to use new loans to repay existing loans granted by the same PLIs;
- acknowledges:
 - (a) the Secretary for Financial Services and the Treasury’s statement that in order to prevent the borrowers from using new loans to repay existing loans granted by the same lenders when launching similar schemes in the future, a mechanism similar to that of a Chapter 11 Reorganisation provided in the bankruptcy legislation of the United States should be introduced in Hong Kong;
 - (b) that for future similar schemes under which the Government acts as a guarantor for loans granted to the private sector, the Secretary for Commerce, Industry and Technology and the Director-General of Trade and Industry have agreed to critically assess the risks of abuse by lenders through methods such as offloading bad loans onto the schemes;

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- (c) that when the Government launched the SME Business Installations and Equipment Loan Guarantee Scheme in 2001, it had included in the Deed provisions expressly disallowing borrowers and lenders to use the scheme for loan restructuring;
 - (d) that the Director of Accounting Services, in consultation with the Department of Justice, is reviewing the claims for compensation in respect of the six guaranteed loans examined by Audit, to ascertain whether the PLIs concerned have breached any requirement stipulated in the Deed, and the same will also be done in respect of all other claims for compensation under the Scheme; and
 - (e) the Secretary for Commerce, Industry and Technology's undertaking that if a PLI was found to have breached the requirements of the Deed, the Government might seek to recover the amount from the PLI for a claim already paid or refuse to make payments for a claim being processed;
- urges the Administration to act expeditiously in respect of the concerns of the Bills Committee on Companies (Corporate Rescue) Bill whose scrutiny of the Bill has been held in abeyance since December 2001 to allow time for the Administration to act;
 - recommends that for future similar schemes under which the Government acts as a guarantor for loans granted to the private sector, the Director-General of Trade and Industry should:
 - (a) in conjunction with the Secretary for Commerce, Industry and Technology and on the basis of the results of the risk assessment, decide whether the Government should allow the borrowers to use new loans to repay existing loans granted by the same lenders; and
 - (b) require the lender to provide to the Government essential credit information about the borrower if the Government allows the borrower to use the new loan to repay existing loans granted by the same lender, so that the Government can conduct a thorough credit assessment of the borrower before approving the guarantee;

Special Finance Scheme for small and medium enterprises

Need to review the writing-off authority of the Director of Accounting Services

- expresses concern about the large number of write-off cases (estimated to be about 1,200 in January 2002), the significant amount of irrecoverable guarantee payments (estimated to be about \$430 million in January 2002) to be written off and the fact that it was the Treasury which approved the applications for the guarantees in the first place;
- acknowledges that the Secretary for Financial Services and the Treasury has agreed to review the current delegation to the Director of Accounting Services of the authority to approve personally the write-off of irrecoverable guarantee payments each exceeding \$0.5 million under the Scheme;

Granting of guaranteed loans of \$50,000 not restricted

- expresses concern about the high default rate of guaranteed loans of \$50,000 each under the Scheme;
- acknowledges that the Secretary for Commerce, Industry and Technology and the Director-General of Trade and Industry have agreed to critically assess the need of setting a minimum loan amount if a similar scheme is launched in the future; and

Follow-up actions

- wishes to be kept informed of:
 - (a) the details of the Director of Accounting Services' review of all the claims for compensation under the Scheme, including:
 - (i) the explanations obtained from the PLIs;
 - (ii) the actions taken as a result of the review, e.g. the amount recovered from the PLIs for claims already paid and the number of such claims and, among the claims being processed, the amount and number that the Government refused to make payments; and
 - (iii) the improvement measures that will be adopted in future similar schemes; and
 - (b) the results of the review of the writing-off authority of the Director of Accounting Services.

Chapter 4

Small house grants in the New Territories

Audit conducted a review of the Lands Department's implementation of the small house policy in the New Territories and identified areas where improvements could be made.

Need to improve the implementation of the small house policy

2. The Committee noted that in the present review, Audit made the same observation as in its 1987 audit review, that the problem of indigenous villagers selling their small houses soon after the issue of the certificates of compliance (CCs) still existed. Audit found that in 53 cases, the indigenous villagers applied for permission to sell their small houses within an average of three days after the issue of the CCs. Nearly all of the flats of the 53 small houses were sold in about five months after the removal of the restriction on alienation. Audit considered that many indigenous villagers were cashing in on their eligibility for the small house concessionary grants, which the Government considered to be a valuable privilege especially in a rising property market. In June 2001, the Court of Appeal drew the Lands Department's attention to the issue of alleged illegal agreements on small house grant applications. The Lands Department noted the problem and had taken some actions to address it.

3. The Committee wondered:

- whether the problems above constituted an abuse of the privilege to develop small houses, as indigenous villagers were cashing in on their eligibility for concessionary grants; and
- whether these problems arose from omission of actions which should have been taken by the Lands Department.

4. **Mr Michael SUEN Ming-yeung, Secretary for Housing, Planning and Lands**, responded at the public hearing of 9 December 2002 that the crux of the problems was that, according to estimates of the Heung Yee Kuk (HYK), at present about 240,000 indigenous male villagers were entitled to build small houses. However, there was insufficient land to meet the demand. Instead of taking the approach suggested by Audit for addressing the problems, he said that it was his intention to pursue within the tenure of his office a review of the small house policy and related issues in a comprehensive manner, and he hoped to resolve the associated problems once and for all within that time scale.

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5. In this connection, the Committee asked about the timetable for the review and whether it would be completed within one year.

6. The **Secretary for Housing, Planning and Lands** responded, vide his letter of 30 December 2002 in *Appendix 50*, that the small house policy review involved a number of complex and inter-related issues, such as the optimal use of land resources, and various environmental and transport infrastructural matters associated with small house developments. The Housing, Planning and Lands Bureau (HPLB) intended to review the small house policy in a comprehensive manner and identify suitable options for resolving those problems associated with the policy. It would consult stakeholders along the way and try to reach some tentative conclusions with them for further consultation with the community. It would do its best to expedite the review but given the complexity of the issues involved, this phase of the work was unlikely to be completed within one year.

7. The Committee considered that the undertaking given in the above letter fell far short of that given as part of the Secretary for Housing, Planning and Lands' evidence at the public hearing. The Committee asked whether it was still his objective to review the small house policy within his tenure of office and resolve the associated problems once and for all.

8. In his letter of 29 January 2003 in *Appendix 51*, the **Secretary for Housing, Planning and Lands** reaffirmed his intention and hope as stated at the public hearing of 9 December 2002.

9. The **Secretary for Housing, Planning and Lands** also pointed out in his letter of 29 January 2003 that the undertaking in his letter of 30 December 2002 was an outline of the practical first steps which he intended to take in order to give effect to his intention. He had also given his assessment that this phase of the work was unlikely to be completed within one year.

10. Regarding the scope of the comprehensive review of the small house policy, the Committee asked:

- as the Committee in its Report No. 10 of January 1988 had recommended that a review of the question of granting land to male heirs of indigenous villagers who were no longer residents in Hong Kong be conducted, about the results of the review conducted thereafter;

Small house grants in the New Territories

- whether the above issue of granting land to male indigenous villagers who were no longer residents in Hong Kong would be revisited in the present review; and
- whether the present review would cover the question of whether the entitlement to build small houses in the New Territories under the policy was one of the lawful traditional rights and interests of the indigenous inhabitants of the New Territories which were protected by the Hong Kong Special Administrative Region under Article 40 of the Basic Law.

11. In his letter of 30 December 2002, the **Secretary for Housing, Planning and Lands** responded that:

- subsequent to the release of the Committee's Report No. 10, the Administration conducted a review of the practice of granting land to male indigenous villagers who were no longer residents in Hong Kong;
- the Administration then was of the view that the small house policy did not exclude male indigenous villagers who resided overseas from applying for small house grants. The Administration also took the view that if the overseas indigenous villager did not intend to return shortly to reside in his house, his application would be accorded low priority in the face of other applications with more pressing housing needs. This arrangement for processing applications from overseas indigenous villagers had remain unchanged;
- the issue of granting land to male indigenous villagers who were no longer residents in Hong Kong would be included in the present review; and
- the present review would encompass the question of whether the various arrangements for land grant applications under the small house policy was one of the lawful traditional rights and interests of the indigenous inhabitants of the New Territories which were protected by the Hong Kong Special Administrative Region under Article 40 of the Basic Law.

12. The Committee asked about the role of the HYK in the Administration's comprehensive review of the small house policy.

Small house grants in the New Territories

13. The **Secretary for Housing, Planning and Lands** responded that the HYK was a statutory advisory body established under the Heung Yee Kuk Ordinance. The Administration would consult the HYK on matters affecting indigenous villagers in the New Territories such as the small house policy. Notwithstanding the need for consultation, the Administration did not need to seek the agreement of the HYK. If the Administration and the HYK had different views on a matter, the Administration would try to resolve them.

14. The Committee noted that the Director of Lands generally agreed with Audit's recommendations for improving the current arrangements regarding small house administration.

15. In response to Audit's recommendations on implementation of the existing small house policy, the Secretary for Housing, Planning and Lands had said in paragraph 2.27 of the Audit Report that while it was not an abuse for villagers to dispose of their small houses built under building licence or through land exchange soon after the issue of the CC, he agreed that the problem deserved his attention. He was exploring appropriate measures to address this issue.

16. The Committee noted that the "no abuse" response of the Secretary for Housing, Planning and Lands was contrary to the then Director of Buildings and Lands' response to the 1987 audit review that the problem of indigenous villagers selling their village houses built on sites granted under the small house policy, thereby abusing the scheme, had been with the Government for many years.

17. The Committee was very concerned that soon after the issue of the CCs, some indigenous villagers sold their small houses built under building licences or through land exchanges, notwithstanding the fact that in their applications for small house grant to the Lands Department, they had declared that they had never made and had no intention to make any private arrangements for their rights under the small house policy to be sold to other individuals or developers. It asked:

- whether Audit's recommendations on implementation of the existing small house policy and prevention of abuse would not be taken forward by the Administration pending the outcome of the comprehensive review of the policy; and
- whether the sale of small houses by indigenous villagers constituted an abuse of the small house policy.

Small house grants in the New Territories

18. **Mr Patrick LAU, Director of Lands**, responded that:

- the Lands Department agreed with the majority of Audit's recommendations on implementation of the existing small house policy. In fact, some of the recommendations had already been implemented. On some other recommendations which involved legal issues, the Lands Department was seeking legal advice. As regards the remaining recommendations, the Lands Department had already started consulting the HYK. The consultation would be conducted in sincerity with a view to reaching consensus on how to implement Audit's recommendations. Hence, before the outcome of the comprehensive review of the small house policy was available, the Administration would implement some of the measures which were recommended by Audit and adopt appropriate measures to preclude people from taking improper actions due to imperfections in the present policy;
- the existing small house policy allowed the inclusion, in the conditions of small house grants, of provisions on alienation upon completion of the small houses. Except for private treaty grants which had a perpetual restriction on alienation, other types of small house grants did provide flexibility for alienation;
- as shown in Table 1 of the Audit Report, the Administration imposed restrictions on alienation for different types of small house grants under the small house policy, which also gave flexibility for alienation for some types of grants. If the alienation of small houses was in accordance with the terms of these restrictions, it was difficult for the Administration to take the view that there was abuse of the small house policy by the villagers concerned; and
- if illegal agreements on the sale of small houses were made, the Administration would take action against the parties concerned so long as it could adduce evidence to prove its case. The Lands Department decided not to take any action against the relevant parties in the case of alleged sale of small house prior to the issue of the CC because, as explained in the Audit Report, neither the Government nor the villager was involved in the agreements. The parties involved in the agreement did not have interest in the land of the small houses concerned. The Lands Department could not reject the application unless the indigenous villager, to whom the building licence of the small house was granted, was a party to the agreement or proved to be involved in the agreement.

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19. **Mr LAM Kwok-cheong, Ex-officio Executive Councillor, HYK**, said that:

- notwithstanding the hiccups in the implementation of the small house policy, the HYK generally considered that there were no big problems. The small house policy had all along been implemented on the right track. But the objectives of the policy had not yet been achieved. This was due to the substantial number of indigenous villagers and insufficient land. As the policy only allowed small houses to be built in existing village areas within 300 feet from the edge of the last house built before December 1972, it restricted the land available. Implementation of the policy should continue with a view to achieving the objectives;
- the small houses were basically for meeting the housing needs of the indigenous villagers themselves. But some indigenous villagers did not have the means to pay and were unable to secure bank loans for the building expenses. They therefore sold one of the flats of their houses in order to secure funds for the building expenses. As regards the sale of small houses after their completion, indigenous villagers who owned the land and built the small houses were free to sell their small houses without the need for payment of premium after the five-year restriction on alienation. The sale of small houses within the five-year period was, however, subject to the payment of a premium. Cashing in was unlikely as it was difficult to sell small houses in the present property market; and
- the HYK considered that there was no abuse of the small house policy. The question of abuse arose from a few court cases of irregularities in that the alleged false declaration had been made by an indigenous villager in the application for a building licence under the small house policy to the effect that the indigenous villager declared that he was the owner of the subject lot when in fact the beneficial ownership of the lot belonged to the developer. If the declaration was proved to be false, the parties concerned should be brought to justice. Nevertheless, these irregularities should not be considered as an abuse of the small house policy.

20. The Committee noted from paragraph 1.3 of the Audit Report that, apart from the “300 feet” limit, small houses built by virtue of the small house policy were also subject to a height limit of three storeys or 8.23 metres. It wondered whether these limits had aggravated the problem of insufficient land supply.

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21. The **Secretary for Housing, Planning and Lands** responded that:
- villages at the proximity of the urban area might have more well-developed infrastructural facilities but those in the remote area did not;
 - from the practical point of view, there were doubts on whether the height limit of all the villages could be relaxed. From the planning point of view, the arrangement of houses would not be harmonious and would give rise to other problems if there were houses of over three storeys among low-rise three-storeyed houses; and
 - regarding the “300 feet” limit, the village expansion area scheme was already in place to provide more land for building small houses.
22. The Committee further asked how the problem of insufficient land for indigenous villagers and their male descendents to build small houses could be addressed.
23. The **Ex-officio Executive Councillor, HYK**, said that in view of the constraints on the land supply, the HYK had, after conducting a detailed study, suggested to the Administration that a pilot scheme to relax the height limit of small houses be implemented in Tsing Yi. The HYK was awaiting the Administration’s response to the suggestion.
24. The **Secretary for Housing, Planning and Lands** responded that the Administration would not decide on the HYK’s suggestion, before the conclusion of the comprehensive review of the small house policy.
25. The **Director of Lands** added that there were technical problems, such as environmental and transport infrastructural matters, to be resolved if the present height limit of three storeys for small houses was relaxed. All these problems had to be addressed in consultation with the HYK.
26. The Committee noted that following the Court of Appeal’s referral of the case of alleged illegal agreements to the Lands Department, the Lands Department raised with the Law Society in July 2001 its concern about whether the solicitors had acted with any impropriety in preparing the conveyancing legal documents. In reply, the Law Society informed the Lands Department that an investigation into the matter was in progress. The Committee was not satisfied that no follow-up actions had been taken since July 2001.

Small house grants in the New Territories

The Committee asked at the public hearing of 9 December 2002 whether the Lands Department had followed up the matter with the Law Society.

27. The **Director of Lands** responded, vide his letter of 17 December 2002 in *Appendix 52*, that:

- the Law Society informed the Lands Department in November 2001 (in response to a follow-up letter from the Lands Department regarding the concerns raised in July 2001 with the Law Society) that an investigation by the Conduct Section of the Law Society was underway and that it was considering whether to recommend the issue of a general notification to the Society's members. This was in response to a suggestion from the Lands Department to the Law Society that the Society should consider issuing a general notification to its members as to how to conduct themselves if instructed to prepare Declarations of Trust and other documents related to the so-called "development schemes"; and
- following enquiry from the Committee at the hearing of 9 December 2002, the Lands Department requested an update from the Law Society. The Law Society advised that it would not be able to disclose information relating to the investigation by its Conduct Section as the Personal Data Privacy Ordinance precluded disclosure of such information to third parties and of information on any resulting disciplinary prosecutions (the proceedings for which were, by law, held in camera). On the issuing of a general notification, the Law Society had requested the Lands Department to identify how the Lands Department envisaged that the legal profession might address the problem of the sale of small house rights. The Lands Department would render the assistance requested by the Law Society.

28. The Committee further asked about the Administration's response to the view of the United Nations Committee on the Elimination of Discrimination against Women that the small house policy was unfair.

29. The **Secretary for Housing, Planning and Lands** responded that there were problems in checking female indigenous villager status as, unlike male indigenous villagers, the clan book did not record the descendents of female indigenous villagers since 1898. Moreover, extending the eligibility for small houses to female villagers would also give rise to the problems of land demand and of substantial increase of eligible villagers. He had not yet started to prepare the Administration's response to the United Nations Committee's view. In doing so, he would make reference to his predecessor's explanation of the problems.

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30. The Committee noted from paragraph 2.16 of the Audit Report that after the 1987 audit review, the Lands Department introduced in the small house grant conditions under the village expansion area schemes a three-year moratorium on removal of the restriction on alienation. In other words, the Lands Department would not permit the assignment of small houses in such areas within three years after the issue of the CC. The Committee asked whether the HYK had been consulted on the moratorium period.

31. The **Director of Lands**, vide his letter of 17 December 2002, affirmed that the HYK had been consulted on the issue. At the Seventh Meeting of the Small House Policy Working Group held on 1 October 1987, HYK representatives supported the imposition of a 3-year moratorium on removal of restriction on alienation for small house grants under the village expansion area schemes.

32. In response to the Committee's request for an update of the statistics on removal of restriction on alienation set out in Table 2 of the Audit Report provided, the Director of Lands provided, vide his letter of 17 December 2002, the following updated statistics:

<u>Period covered</u>	<u>CC issued</u>	<u>Approved cases of removal of restriction on alienation</u>	<u>Premium collected</u>
	(No.)	(No.)	(\$ million)
April - November 2002	575	275	156
		(this figure included cases where CCs were issued prior to April 2002)	

33. The Committee also noted from paragraph 2.24(a) of the Audit Report that, in reply to Audit's enquiry, the Lands Department pointed out that the Government had recently suggested to the HYK that a moratorium clause, which was similar to the existing one for PTGs under the village expansion area schemes, should be included in the conditions of small house building licences, land exchanges and PTGs not under the village expansion area schemes.

34. Upon the Committee's enquiry about the views of the HYK on the Government's suggestion, **Chairman of HYK**, vide his letter of 18 December 2002 in *Appendix 53*, made the following response:

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- the HYK understood that the Government's proposal was made as a result of certain comments made in three High Court cases on the specific issue of the making of alleged false declaration by an indigenous villager in the application for a building licence under the small house policy to the effect that the indigenous villager declared that he was the owner of the subject lot when in fact the beneficial ownership of the said lot belonged to the developer;
- the HYK was of the view that these cases were in fact independent and isolated cases and as such they should be dealt with by the Administration under the existing law. The interest that was being enjoyed by the indigenous villagers pursuant to the grant of small houses under the small house policy was in fact one of the lawful traditional rights and interests of the indigenous inhabitants in the New Territories protected by Article 40 of the Basic Law and the same had been duly confirmed by the Court of Final Appeal. Accordingly, the HYK considered that it would be manifestly inappropriate for the Government to use moratorium as a "cut-off" method to attempt to solve the problem;
- the HYK would strongly object to any proposal that purported to vary the existing small house policy on the ground that the same would seriously contravene Article 40 of the Basic Law; and
- the Government and the HYK had already set up a Working Group to discuss the issue relating to the prevention of abuse of the small house policy. The Working Group held its first meeting on 28 November 2002 and would hold a second meeting sometime in mid-January 2003 for further discussion and study of the matter.

35. Having noted the HYK's views, the Committee asked about the Administration's comments on the HYK's view that "it would be manifestly inappropriate for the Government to use moratorium as a 'cut-off' method to attempt to solve the problem".

36. The **Director of Lands** responded, vide his letter of 6 January 2003 in *Appendix 54*, that when this issue was raised by the Administration at its liaison meeting held on 10 January 2002 with the HYK, the HYK's comments were similar to those made by the Chairman of HYK in his letter of 18 December 2002 to the Committee. The HYK considered that Government should only take action on the three court cases; and objected to further restrictions on the assignment of small houses. At that time the HYK did not wish to discuss the issue further without details of the three court cases involving

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malpractices in the assignment of small house developments and statistics on abuses. Subsequently, copies of the court judgements were provided to the HYK and the matter would be further discussed at the next Lands Department and HYK Working Group meeting to be held in January 2003. The Lands Department would not be able to give detailed comments on the HYK's views expressed in the above letter to the Committee until after that meeting.

37. In response to the Committee's enquiry about the moratorium period in the proposed moratorium clause, the **Director of Lands** pointed out, vide his letter of 17 December 2002, that at the liaison meeting between the then Secretary for Planning and Lands and the HYK in January 2002, a moratorium period of 5 years from the date of issuing the CC was proposed for all small house grants, i.e. those approved under free building licences or through land exchanges or PTGs irrespective of whether or not they were granted within village expansion areas. The proposed period was considered long enough to achieve the intended effect of preventing potential abuse of the small house applications. The proposed measure was being discussed by the Working Group on Prevention of Abuses of Small House Policy which comprised representatives of the Lands Department and the HYK.

38. The Committee noted from paragraph 2.19 of the Audit Report that the Lands Department included an additional clause in the villager's declaration form for small house grant application with effect from October 2001. However, the New Territories District Lands Offices (NTDLOs) of Tsuen Wan and Tuen Mun had not used the new declaration forms until Audit's enquiry in July 2002. In this connection, the Committee asked how the NTDLOs were informed of the inclusion of an additional clause in the villager's declaration form for small house grant application and the disciplinary action, if any, that had been taken against the NTDLOs of Tsuen Wan and Tuen Mun for using the old declaration forms.

39. The **Director of Lands** responded, vide his letter of 17 December 2002, that:

- the NTDLOs were informed of the inclusion of the additional clause in the declaration form by a memo from the Lands Department Headquarters setting out Lands Administration Office Instruction (LAOI) Amendment No. 7/2001. This was the established procedure for issuing guidelines and instructions and NTDLO staff were required to observe the instructions promptly. The additional clause was applicable to applications involving private land;

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- in the DLO/Tsuen Wan (DLO/TW), since the introduction of the additional clause, 24 applications for small house were received in old declaration forms. All the cases involved government land only. As the additional clause in the new form applied to private land only, there was no material difference between using the old form and the new form in these cases. The DLO/TW, upon receipt of Audit's enquiry, had immediately withdrawn the old forms. The DLO/TW also reminded officers handling small house applications to pay special attention to the declaration form submitted by the applicants to ensure that the new form would be used;
- in the DLO/Tuen Mun (DLO/TM), 14 applicants had submitted their applications in old declaration forms and all of them involved private land. As 12 of them had not yet been interviewed, they would be required to declare on the new form upon interview. The other two applicants had been interviewed and declared using the old form. The DLO/TM would make arrangement with the two applicants for a new declaration. The DLO/TM had also instructed case officers to examine all small house applications in hand to ensure the new declaration form was used; and
- the Lands Department considered that the nature and potential consequences of the oversight were not such that disciplinary action was warranted. A reminder had been issued to all NT District Lands Officers personally that they should take steps to ensure that prompt action was taken upon receipt of such instructions from the Lands Department Headquarters.

Need to improve the checking of indigenous villager status

40. The Committee noted that the Lands Department did not keep a list of eligible indigenous villagers who were entitled to the small house grant. A small house grant applicant had to submit a declaration, signed either by a village representative (VR) of his village or by a chairman/vice-chairman of the relevant rural committee (RC), certifying that he was an indigenous villager. Besides such a declaration, the applicant did not have to submit any other evidence to substantiate the indigenous villager status. Audit considered that it was important for the Lands Department to ensure that the small house grant was only given to genuine indigenous villagers.

41. According to paragraph 3.13 of the Audit Report, Audit had recommended that the Director of Lands should take prompt action to incorporate in the LAOI:

- criteria for determining whether a small house grant application was a simple or complex case;

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- the requirements that officers in the NTDLOs responsible for processing small house grant applications should always check the applicant's Birth Certificate with a view to confirming the relationship between the applicant and his father;
- procedures for verifying the indigenous villager status of the small house grant applicant if his indigenous villager status was in doubt;
- the criteria under which a small house grant application was classified as a doubtful case;
- detailed procedures for the checking of doubtful cases; and
- the type of information which should be obtained from the District Office of the Home Affairs Department (HAD) for checking the doubtful cases.

42. In response to the Committee's request for a detailed response to Audit's recommendation, the **Director of Lands** stated, vide his letter of 17 December 2002, that:

- the first and third to fifth items above were very similar and would be consolidated and incorporated into a new procedure for indigenous villager status checking which was now being formulated by the Lands Department in consultation with the HYK. In this respect, the HYK had counter-proposed the waiving of the VRs and the RC Chairmen/Vice-Chairmen's statutory declaration on the applicant's indigenous villager status. The Lands Department had responded to the HYK that if the applicant could not obtain the VR or the RC Chairman's declaration on his indigenous villager status, it would conduct a thorough checking on his indigenous villager status including the checking of the family tree/clan book, ownership of private lots in the New Territories dated-back to the Block Government Lease, inscriptions appearing in Chi Tong and on ancestral graves, etc. These checks would take time and lengthen the processing period for small house applications;
- regarding the second item, the Lands Department would stipulate the requirement of checking birth certificates in the LAOI; and
- regarding the last item, the type of information that might be obtained from District Offices of the HAD were those on TSO/TONG properties and this would be useful in those cases where the applicants could not provide ownership of a Block Government Lease lot except a TSO/TONG property.

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The Lands Department was discussing with HAD the procedures for the provision of such information and would finalise them in the LAOI as soon as possible.

43. Audit also recommended that the Director of Lands should, in consultation with the Legal Advisory and Conveyancing Office (LACO), specify clearly the penalty for making a false declaration in the declaration form and relevant legal documents for the small house grant applications so as to deter false claims of the indigenous villager status.

44. In response to this recommendation, the **Director of Lands** pointed out in the same letter that the LACO had advised that the statement in the existing declaration, that “I understand that if I make false or incomplete declarations, I may render myself liable to prosecution by the Government of the HKSAR”, already had a deterrent effect. However, to meet the recommendation, the Lands Department would insert in the application form a warning note as follows:

“Note : Under Section 36(a) of the Crimes Ordinance, Cap. 200, any person who knowingly and wilfully makes a statement false in material particular in a statutory declaration shall be guilty of an offence and shall be liable on conviction upon indictment to imprisonment for 2 years and to a fine.”

Scope for improvement in the processing of small house grant applications

45. The Committee noted that the Legislative Council (LegCo) and some District Council Members had raised concern over the long waiting time for villagers applying for the small house grants. In June 2002, the then Secretary for Planning and Lands informed the LegCo Panel on Planning, Lands and Works that, due to the large number of the small house grant applications, there was on average a three-year waiting time before the Lands Department could commence working on an application.

46. The Committee shared the concern over the long waiting time before the Lands Department could commence processing a small house grant application and asked about the reason for it.

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47. The **Director of Lands** responded that the waiting time arose from manpower constraints. Owing to the constraints, there was a backlog in the processing of existing small house applications. New applications would therefore have to put on the waiting list pending availability of manpower to process these applications. The waiting time of three years represented an average of the different waiting times for applications processed by the nine NTDLOs. The NTDLOs of Tai Po, North and Yuen Long had a large number of applications. The waiting time for some applications processed by these three NTDLOs might be longer than five years.

48. The **Ex-officio Executive Councillor, HYK** said that:

- the HYK was very concerned about the processing of the large number (over 14,000) of outstanding small grant applications. While the Lands Department had pledged that it might be possible for execution of straightforward cases to take place within 170 working days from the commencement date of processing of small house grant applications, the HYK was shocked that there was an average initial waiting time of three years before the commencement;
- the Lands Department explained that the waiting time arose from shortage of manpower to process the applications. With a view to starting the ball rolling some small house applicants had made use of the contracting out service introduced by the Lands Department. The Lands Department, however, did not have the manpower to undertake its processing work; and
- the Lands Department should include waiting time in its performance pledge for the small house grants or even conduct a comprehensive review of the performance pledge.

49. In response to the Committee's enquiry about how the problem of long waiting time should be addressed, the **Secretary for Housing, Planning and Lands** said that he was very dissatisfied with the long waiting time before commencement of processing of small house grant applications. This problem, however, related to the entire system on small house grants and would continue if the Administration could not resolve the problems relating to the small house policy in the comprehensive review. The Administration would address the problem as soon as possible.

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50. On the measures to shorten the waiting time, the **Director of Lands** said that:

- the Lands Department had been exploring ways to deploy or spare manpower to process small house grant applications. As the staff of the Lands Department could only start to process applications on the waiting list after they had completed the vetting work of the applications in hand, more manpower could be made available to process the wait-listed applications if the vetting work could be expedited;
- in fact, the Lands Department had in the past explored ways to resolve the problem of long waiting time for processing small house grant applications. For instance, the Lands Department had, as mentioned in the Audit Report, adopted a workshop approach which was most effective for dealing with some straightforward cases. The approach was not very effective in dealing with non-straightforward cases of which there was a backlog;
- the Lands Department also introduced in 1998 a pilot scheme of contracting out the survey and legal work involved in small house grant applications. The villagers had to pay a fee of \$22,000 each for the service. However, the service could only shorten the processing time by a few months. The HYK and the villagers considered that the service was not cost-effective and did not support the pilot scheme. The contracting out was therefore discontinued in 1999; and
- nevertheless, the Lands Department would explore other new ways, such as streamlining the processing procedures, to shorten the waiting time.

51. The Committee understood that lawyers' business in conveyancing was not as good as that in 1998 and other government departments, when contracting out their work, would decide on the fee through tender. The Committee asked whether the Administration would reconsider outsourcing the work involved in small house grant applications and decide on the fee through tender, with a view to expediting the processing work. The **Director of Lands** replied in the affirmative.

52. According to Table 5 of the Audit Report, 30 months were required for consulting the relevant government departments in processing non-straightforward cases of small house grant applications. The Committee enquired about the reason for the long processing time.

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53. The **Director of Lands** responded that the processing time of 30 months included:

- the time required for relevant government departments to give views or impose requirements on issues such as sewage disposal, fire service, drainage and slopes; and
- the time required for applicants to seek clarifications on and respond to these views or requirements. They might need to engage experts to prepare technical reports in making their response.

54. In response to the Committee's enquiry about the HYK's view on the processing time, the **Ex-officio Executive Councillor, HYK** said that he did not know how the processing time of 30 months was drawn up. The processing time only applied to individual cases but not across the board. He said that the HYK noted that complex issues might be involved in non-straightforward cases. Nevertheless, he was inclined to agree that the processing time appeared to be long and should be shortened if possible.

55. According to paragraph 6.23 of the Audit Report, Audit had recommended that the Director of Lands should take prompt action to:

- expedite the processing of small house grant applications so as to reduce the long waiting time;
- devise a small house grant applications standard reply letter for use by all the NTDLOs and incorporate it in the LAOI;
- amend the LAOI to require all the NTDLOs to display notices of the application dates of the small house grant applications which are being processed, and of the average waiting time and processing time for the small house grant applications;
- include in the performance pledge for the small house grants the initial waiting time of the small house grant applications for straightforward cases;
- refine the Lands Department's performance pledge on the processing of small house grant applications in such a way that ambiguity and misunderstanding will not arise; and

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- ensure that consistent wording is used in the Lands Department's performance pledge and in the information pamphlet: "The New Territories small house policy — How to apply for a small house grant".

56. At the Committee's request, the **Director of Lands** informed the Committee of the current progress made by the Lands Department in implementing these recommendations. He said that:

- on the first recommendation, the processing work was affected by external factors which were mentioned in paragraph 6.6 of the Audit Report and were beyond the Lands Department's control. For instance, the villagers might be required by the relevant government department to submit slope stability reports from authorised persons or qualified engineers. The time needed for preparing the reports was beyond the Lands Department's control;
- on the second recommendation, the Lands Department had prepared three draft standard reply letters and would finalise the drafting with a view to using them in early 2003;
- on the third recommendation, the Lands Department was in the process of finalising the display notices of the small house grant applications which were being processed. It, however, had reservations on the display of notices of the average waiting time and processing time for the small house grant applications;
- the fourth recommendation was still being considered by the Lands Department; and
- on the last two recommendations, the Lands Department would, after completing the review of small house grant processing procedures and guidelines, revise the wordings which were used in the Lands Department's performance pledge and in the information pamphlet to make them consistent. After such revision, ambiguity and misunderstanding would not arise.

57. The Committee asked whether the Administration would consider making indigenous villagers eligible for Home Ownership Scheme (HOS) flats in order to reduce the number of small house grant applications, thereby shortening the waiting time and making use of the vacant HOS flats arising from the cessation of sale of HOS flats indefinitely from 2003 onwards.

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58. The **Secretary for Housing, Planning and Lands** responded that these HOS flats would not be sold. The Administration would consider the Committee's suggestion, taking into consideration the fact that these flats would only be rented out and the justifications for making indigenous villagers eligible for renting HOS flats.

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

Need to improve the implementation of the small house policy

- expresses serious concern that:
 - (a) soon after the issue of the Certificates of Compliance (CCs), some indigenous villagers sold their small houses built under building licences or through land exchanges, notwithstanding the fact that in their applications for small house grant to the Lands Department, they had declared that they had never made and had no intention to make any private arrangements for their rights under the small house policy to be sold to other individuals or developers; and
 - (b) despite the Lands Department's introduction of a new declaration form for small house grant applications in October 2001, the New Territories District Lands Offices (NTDLOs) of Tsuen Wan and Tuen Mun had not used the new form until Audit's enquiry in July 2002;
- acknowledges that the Secretary for Housing, Planning and Lands has agreed that the problem of villagers disposing of their small houses built under building licences or through land exchanges soon after the issue of the CCs deserves his attention;
- acknowledges that the Secretary for Housing, Planning and Lands:
 - (a) has undertaken to pursue within the tenure of his office the review of the small house policy and related issues in a comprehensive manner; and
 - (b) hopes to resolve the problems associated with the policy once and for all within the above time scale;

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- acknowledges that the Director of Lands has agreed to:
 - (a) provide in the Lands Administration Office Instruction (LAOI) additional procedures for carrying out further investigations when information on possible breach of licence conditions, misrepresentation by indigenous villagers or abuse of the small house policy is received; and
 - (b) ensure that all NTDLOs use the up-to-date forms for processing small house grants;
- notes that:
 - (a) the Lands Department has raised its concern with the Law Society on whether the solicitors in the court case referred to in paragraph 2.13 of the Audit Report had acted with any impropriety in preparing the conveyancing legal documents; and
 - (b) the Director of Lands will assist the Law Society in its consideration of issuing a general notification to solicitors on how to conduct themselves if instructed to prepare Declarations of Trust and other documents related to the so-called “development schemes” in order to address the problem relating to the sale of small house rights;
- urges the Director of Lands and the Secretary for Housing, Planning and Lands to take prompt action to include a moratorium clause on the removal of the restriction on alienation in the conditions of small house grants made by building licences, land exchanges and private treaty grants (PTGs) not under the village expansion area schemes; and in doing so, to consult the Legislative Council and the parties concerned;

Need to improve the checking of indigenous villager status

- expresses dismay that:
 - (a) building licences were issued to villagers of a village which was not on the Approved List; and
 - (b) there was lack of proper control over the keeping of the Small House Register;

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- urges the Director of Lands to expeditiously:
 - (a) formulate, in consultation with the Heung Yee Kuk, a new procedure for checking indigenous villager status, which will consolidate and incorporate:
 - (i) criteria for determining whether a small house grant application is a simple or complex case;
 - (ii) procedures for verifying the indigenous villager status of the small house grant applicant if his indigenous villager status is in doubt;
 - (iii) the criteria under which a small house grant application is classified as a doubtful case; and
 - (iv) detailed procedures for the checking of doubtful cases;
 - (b) stipulate in the LAOI that officers in the NTDLOs responsible for processing small house grant applications should always check the applicant's Birth Certificate with a view to confirming the relationship between the applicant and his father;
 - (c) discuss with the Home Affairs Department (HAD) the procedures for the provision in the HAD's District Offices of information on TSO/TONG properties for checking the doubtful cases and finalise them in the LAOI; and
 - (d) insert in the application form a warning note as follows: "Note: Under Section 36(a) of the Crimes Ordinance, Cap. 200, any person who knowingly and wilfully makes a statement false in material particular in a statutory declaration shall be guilty of an offence and shall be liable on conviction upon indictment to imprisonment for 2 years and to a fine.";
- acknowledges that the Director of Lands has, in respect of the management control over the keeping of the Approved List of recognised villages and the Small House Registers, agreed that:
 - (a) the criteria for inclusion of additional villages in the Approved List will be specified clearly in the LAOI;
 - (b) the small house grants will only be made to eligible indigenous villagers of recognised villages included in the Approved List;

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- (c) the NTDLOs will keep complete and accurate Small House Registers; and
- (d) a thorough check of the Small House Registers kept by the NTDLOs will be carried out with a view to reconciling/rectifying any discrepancies/errors found;

Premium computation inconsistent with the grant conditions

- expresses concern that the computation of premium to be paid to the Government for the removal of the restriction on alienation is inconsistent with the conditions of small house building licences and land exchanges;
- urges the Director of Lands to:
 - (a) amend the small house building licence/land exchange conditions to reflect the Government's intention of using a discounting factor for the calculation of the premium on the removal of the restriction on alienation; and
 - (b) specify the computation method clearly in the building licence/land exchange conditions so that all parties concerned know exactly how the premium on the removal of the restriction on alienation is computed;

Scope for improvement in the processing of small house grant applications

- expresses dismay that there is a waiting time of three to five years before the Lands Department can commence processing a small house grant application;
- recommends that the Director of Lands should reconsider outsourcing the work involved in small house grant applications and decide on the fee through tender, with a view to expediting the processing work;
- acknowledges that the Director of Lands has agreed to take prompt action to:
 - (a) expedite the processing of small house grant applications;
 - (b) devise a small house grant application standard reply letter for use by all the NTDLOs and incorporate it in the LAOI;
 - (c) amend the LAOI to require all the NTDLOs to display notices of the dates of the applications being processed, and of the average waiting time and processing time for the small house grant applications;

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- (d) include in the performance pledge for the small house grants the initial waiting time of the small house grant applications for straightforward cases;
- (e) refine the Lands Department's performance pledge on the processing of small house grant applications in such a way that ambiguity and misunderstanding will not arise; and
- (f) ensure that consistent wording is used in the Lands Department's performance pledge and in the information pamphlet: "The New Territories small house policy — How to apply for a small house grant"; and

Follow-up actions

- wishes to be kept informed of:
 - (a) the progress of the comprehensive review of the small house policy;
 - (b) the additional procedures provided in the LAOI for carrying out further investigations when information on possible breach of licence conditions, misrepresentation by indigenous villagers or abuse of the small house policy is received;
 - (c) the progress in addressing the problem of villagers disposing of their small houses built under building licences or through land exchanges soon after the issue of the CCs;
 - (d) the progress of the actions taken to address the problem relating to the sale of small house rights;
 - (e) the progress of the Administration's proposal to include a moratorium clause on the removal of restriction on alienation in the conditions of small house grants made by building licences, or through land exchanges or PTGs not under the village expansion area schemes;
 - (f) the progress in formulating a new procedure for checking indigenous villager status;
 - (g) the progress in drawing up and incorporating in the LAOI the procedures for the provision of information in the HAD's District Offices for checking doubtful cases of small house grant applications;

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- (h) the progress in implementing the recommendations on the management control over the keeping of the Approved List of recognised villages and the Small House Registers;
- (i) the actions taken by the Administration to address the issue of premium computation being inconsistent with the grant conditions; and
- (j) the progress in implementing the recommendations on expediting the processing of small house grant applications.

Chapter 5

Primary education - Planning and provision of primary school places

Audit conducted a review to examine the system of planning and providing public-sector (i.e. government and aided) primary school places to ascertain whether there are areas for improvement.

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

3. At the public hearing on 2 December 2002, **Prof Hon Arthur LI Kwok-cheung, Secretary for Education and Manpower**, made an opening statement. He said that:

- it was the Administration's pledge to provide high-quality education. In pursuing this goal, it was important to ensure the effective use of resources. However, the focus should not only be whether there was a match between the supply and demand of school places, but also the quality of education. The key to achieving quality education depended, apart from the effective use of resources, on the commitment of the education sector and the support of the various sectors in the community;
- in recent years, the Administration had tried to introduce diversity and the market mechanism to the education system, with a view to providing choice for parents and students and encouraging schools to pursue self-improvement. To enable the mechanism to function, it was necessary to allow a reasonable degree of surplus supply. Moreover, demographic changes and population movements in Hong Kong had been rapid. There was a need to build new schools at suitable locations to meet new demand arising from population growth or to replace old schools in those districts where the population had decreased;
- the Education Commission report issued in 2000 recommended that parents should be given more choices. The recommendation had been accepted by the Administration and implemented from 2001. Under the current Primary One Admission (POA) system, about 55% of the school places were available for cross-district student enrolment, as compared to 35% in the past. This had injected an element of uncertainty in the planning of provision of school places;
- actually, some schools that were located in districts where the local student population was dropping could attract students from other districts. Hence, the actual situation of supply and demand could not be deduced simply by comparing the student population in a district with the number of school

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places available in the same district. For instance, Audit pointed out that there would be excess supply of school places in Wan Chai. However, the total number of applications received by the schools in Wan Chai during the Discretionary Places Admission stage of the POA process in 2002 was 2.4 times of the school places earmarked for Discretionary Places Admission. This explained that whether a school was popular depended on a variety of factors, such as the mode of school management and teachers' professionalism. On the one hand, the declining student population in recent years had led to problems of under-enrolment and vacant classrooms in some schools. On the other hand, it provided an opportunity to upgrade the quality of education;

- in view of the continued decline of student population, the Administration planned to tighten the criteria for allowing a school to operate a Primary One class from the 2003-04 school year. Currently, if the number of students allocated to a Primary One class of a school was less than half of a normal class size, and at the same time, there were still unfilled places in the other schools of the same school net, the school might not be allowed to operate that particular class. To further ensure the effective use of resources, the Administration planned to adjust the criterion of "half" of a normal class size to "two-third";
- the facilities of rural schools were inferior to the standard primary schools. This, coupled with the declining student population, had resulted in the under-enrolment of many rural schools. The Administration would critically review the future of rural schools, taking into account the need to provide quality education, and the fact that there was sufficient capacity in standard schools and that many rural areas were now connected with newly developed areas nearby by transport network; and
- government primary schools had been pioneers and role models in education reforms. They had been playing a leading role in implementing many education initiatives, such as opening up the School Management Committee to parents and outsiders, enrolling "over-aged" students and those who had learning or emotional problems. In order to reduce the cost differential between operating government primary schools and aided primary schools, the Administration would actively consider Audit's recommendation of using contract terms for hiring future staff of government schools. The Administration would also actively review the distribution of government primary schools, so as to ensure sufficient choice for parents in all districts.

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Planning and provision of public-sector primary school places

4. Paragraphs 2.2 to 2.20 of the Audit Report mentioned that according to Audit's projection, by 2010, the overall supply of primary school places would exceed the overall demand by about 27,600 places, which was equivalent to 35 standard primary schools. Moreover, between 2002 and 2010, the children population in the six to 11 age group would decline by 17% from 493,200 to 410,500. On the other hand, by 2010, there would be a total shortfall of 16,400 school places in four districts, namely, Sham Shui Po, Kwun Tong, Kwai Tsing and the North District.

5. The Committee further noted that according to the school building programme of the Education Department (ED)¹ of March 2002, there were 69 new schools being planned. Of these, 22 were being planned for the seven districts where there would be a significant excess supply of school places. 18 of these 22 projects were still at the early stage of development and the building works would start after 2002. The Committee asked whether the Administration agreed to Audit's recommendation that the building works of these 18 new schools should be put on hold.

6. **Mr LEE Hing-fai, Director of Education²**, responded that:

- the school building programme was subject to review and adjustment from time to time. Some new projects might be added to and some withdrawn from the programme due to various reasons. Before the building works of a new school commenced, the ED would review the need of the project;
- the school building programme referred to in the Audit Report was the one as of March 2002, which was being reviewed. If any of the new projects in the programme were no longer justified due to decreased demand in the long term based on the latest information, they would be deleted. New projects would be added to the programme if they were justified by demand and if suitable sites were available. Hence, there would be no question of serious excess supply of school places in 2010 as projected by Audit;

¹ The Education and Manpower Bureau and the Education Department have been merged from 1 January 2003 and, since then, the Education and Manpower Bureau (the new organisation after the merger) takes charge of both the formulation and implementation of education policies.

² Following the merger of the Education and Manpower Bureau and the Education Department, the post of Director of Education was deleted on 1 January 2003.

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- apart from population demand, the ED would also take into account other factors such as the need to reprovise existing schools which had poor physical conditions. Moreover, according to the population projections of the Census and Statistics Department, the number of children at school age would decline over the next few years and reach the trough between 2010 and 2013. The number would rise again starting from 2010. The ED would consider the changes in the demand for school places arising from the changes in the student population in all these years when reviewing the school building programme; and
- of the 18 schools recommended by Audit to be put on hold, the ED had decided to suspend nine school projects which were located in the districts projected to have excess supply of primary school places in both 2007 and 2010 based on the latest population projection. Regarding other school projects, four were being further reviewed to ascertain if they should be suspended. The remaining projects would also be reviewed. The school sites that had been reserved but were considered no longer required would be returned to the Planning Department.

7. The Committee understood that funding approval from the Finance Committee of the Legislative Council (LegCo) would have to be obtained prior to the commencement of the building works of new school projects. As the ED would continue to review the need for the new projects in the school building programme, the Committee asked whether the ED, when seeking funding approval from the Finance Committee, would provide information on the results of its review, such as population changes and the projected supply and demand of school places.

8. The **Director of Education** replied in the affirmative. He stated that when the ED sought the Finance Committee's funding approval for a new school project, it would set out all the justifications. For instance, it might be necessary to build a new school to meet new demand arising from population growth in some new areas, implementation of whole-day primary schooling, or reprovise and redevelopment of existing old schools.

9. The Committee further asked at which stage a school project in the school building programme could be withdrawn. The **Director of Education** explained that in general a project could be suspended any time before the tendering process was completed. In the past, there had been school projects that were suspended due to different reasons, such as population changes, technical problems and high construction costs.

Primary education - Planning and provision of primary school places

10. On the number of school projects that would be suspended, the **Secretary for Education and Manpower** informed the Committee, vide his letter of 29 January 2003 in *Appendix 55*, that apart from the nine projects mentioned at the public hearing, the Education and Manpower Bureau (EMB) had decided to suspend another five school projects due to various reasons, e.g. high site formation costs and technical constraints of the school sites concerned. The distribution of the 14 suspended projects by district was:

District	Number of suspended projects
Eastern	3
Central and Western	2
Wan Chai	1
Yau Tsim Mong	1
Kowloon City	2
Tai Po	1
Tuen Mun	2
Tsuen Wan	2
<i>Total</i>	<i>14</i>

11. The Committee was concerned that there were some schools that were built a long time ago and had sub-standard facilities. As savings could now be achieved due to the suspension of some new school projects, it asked whether the savings would be deployed to help expedite the reprovisioning and redevelopment of such old schools.

12. In his letter of 29 January 2003, the **Secretary for Education and Manpower** advised that:

- on the one hand, suspension of the school projects would achieve savings. On the other hand, the Administration would launch a rolling programme from the 2003-04 school year to reprovision or redevelop schools which were substantially below present-day standards; and
- the programme would require additional resources. The number of reprovisioning and redevelopment projects to be carried out each year would depend on the availability of both funding and land resources. The EMB estimated that about 10 schools would benefit from the first batch of the programme.

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13. Regarding the four districts with a projected shortfall of primary school places (i.e. Sham Shui Po, Kwun Tong, Kwai Tsing and the North District), the Committee asked whether the ED had a concrete plan for constructing new primary schools there. In his letter of 31 December 2002, in *Appendix 56*, the **Director of Education** advised that:

- the ED updated the school building programme from time to time to ensure that, where there was a projected shortfall of school places, new schools would be developed to meet the shortfall. It was planning to construct sufficient new primary schools to meet the projected demand for additional primary school places in the four districts in question. On the other hand, where a decline in primary student population was projected in subsequent reviews, the ED would seek to restore the balance of demand and supply by stepping up its efforts to phase out substandard or ineffective schools; and
- subject to regular review of a number of constraints, such as population changes, the ED would work towards a tentative target of full implementation of whole-day primary schooling by the commencement of the 2007-08 school year. To this end, the ED was planning to construct a total of 19 new primary schools from 2003 to 2007 in the four districts in the light of the latest population forecast. Audit had taken into account 12 of these new primary schools in its projected supply of primary school places. Of the remaining seven new primary schools, three were located in the North District, two in Shum Shui Po, one in Kwai Tsing and another one in Kwun Tong.

14. The Committee appreciated that it would not be accurate to assess the supply and demand of school places in a district purely on the basis of local student population because under the current POA system, 55% of the Primary One school places could be allocated to children residing in any school net. While parents had more flexibility in selecting schools, there would also be a greater chance of mismatch between the district population projection and actual enrolment. Wan Chai was a case in point. According to Table 1 of the Audit Report, the demand in the district would be 5,300 in 2010 whereas the supply would be 9,300, indicating an excess supply of 4,000 places. However, as pointed out by the Secretary for Education and Manpower, the total number of applications received by the schools in Wan Chai during the Discretionary Places Admission stage in 2002 was 2.4 times of the Discretionary Places available. This reflected that when parental preferences were taken into account, there would not be any excess supply of school places in the district.

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15. As there were a number of volatile factors, including parental choices and population movements, that would affect the actual demand for school places in each of the 18 districts, the Committee asked how the ED could quantify the impact of such factors, so as to arrive at a more accurate projection of demand and supply.

16. The Committee also noted that the Hong Kong Island was demarcated into four districts. However, some areas in different districts were not too far away from each other. For example, it was quite convenient to travel from Wan Chai to North Point. The Committee wondered whether it would be too rigid to assess the demand and supply of school places based on the 18 administrative districts.

17. **Mrs Fanny LAW, Permanent Secretary for Education and Manpower**, and the **Director of Education** responded that:

- after each POA cycle, the ED would compile statistics on the number of Discretionary Place applicants received by each school and identify the popular schools. The current POA system would be reviewed in 2003. The Administration would take into account the mismatch of the demand and supply of primary school places caused by the volatile factors when conducting the review. Moreover, the ED would consider other relevant factors such as the class structure of the schools in the district. For instance, if there were schools that were very crowded, the ED might consider reducing their number of classes. The locations and operating standards of the schools, as well as the transportation network of an area would all be considered;
- if the primary school places available in a particular district exceeded the local student population, the Administration would not build new primary schools in that district to meet the demand from students residing in other districts. Instead, the Administration might expand existing schools in the district or redevelop those schools with old school buildings to bring them up to present-day standards; and
- it was true that assessing the demand and supply of school places by administrative districts could not reflect the actual situation. In fact, the whole territory was divided into some 50 primary school nets and the area covered in each school net was smaller than that in an administrative district. Nevertheless, it would not be useful to address the problem simply by redefining the school nets. A more reasonable approach would be to look at the situation of each school to identify the popular ones and the number of applications they received while the unpopular schools with low enrolment would be phased out.

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18. The Committee asked how the Administration would deal with the problem of excess demand for school places in some very popular schools. Referring to the situation in Wan Chai, the Committee pointed out that while the total number of applications received by the schools in the district was 2.4 times of the Discretionary Places available, probably only one school was popular while the others were not. In the circumstances, it would be useless to build additional schools there.

19. The **Director of Education** responded that:

- the ED originally had a plan to build a new 18-classroom primary school in Wan Chai at the site where the Lui Kee Education Services Centre was located. However, the project would now be put on hold. In fact, it was one of the nine projects that the ED had decided to suspend due to projected decline in student population; and
- at the same time, there were some schools in Wan Chai which were not preferred by parents or had unsatisfactory operation standard. The ED would gradually phase out these schools. The total supply of school places in the district would thus be reduced.

20. The Committee considered that the problem of mismatches between the demand and supply of school places in different districts might be resolved through the market mechanism. It thus enquired:

- whether the Administration would consider publicising the good schools and enhancing the mobility of students, such as by offering some travelling allowance or making special arrangements to facilitate cross-district enrolment; and
- for the unpopular schools, whether the Administration would help to enhance their teaching quality or school premises so as to attract students.

21. The **Permanent Secretary for Education and Manpower** responded that:

- the Administration worked towards enhancing the quality of education. It would not be too meaningful to focus on the size of student population and supply of school places on a district basis. Instead, it would be more appropriate to obtain an overall view of individual schools by examining their enrolment situation, management quality, culture, attainment, leadership and

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so on to identify the weaker players. On the one hand, the ED's regional staff would offer assistance to those schools that could improve. On the other hand, if the schools were really not operating up to standard, the ED was prepared to take back the school premises and reallocate them to other school sponsoring bodies;

- sometimes parents chased after the famous schools due to some misconceptions. Through the School Profiles, the ED hoped to inform parents that there were also good schools in their local districts. Moreover, to increase diversity in the education system and to provide more choice for parents, the Administration encouraged the establishment of direct subsidy schools and private schools; and
- the Administration also had measures to promote the less popular schools. For instance, it would improve the premises of those schools with poor physical conditions. It also publicised and disseminated the good teaching practices introduced by some schools through district exchange programmes.

22. According to paragraphs 2.23 to 2.27 of the Audit Report, some primary schools had a significant number of vacant classrooms. The problem was particularly serious in 30 schools, each of which had seven or more vacant classrooms. After analysing the classroom utilisation situation of the six schools in close proximity in Tai Wai (i.e. Schools A to F), Audit considered that it was possible to improve the overall vacant classroom situation of four of them by merging Schools A to D into two schools, and phasing out any two of the four schools. As the six schools might be run by different school sponsoring bodies, the Committee enquired whether the Administration had any difficulty implementing Audit's recommendations.

23. The **Permanent Secretary for Education and Manpower** and the **Director of Education** replied that:

- it was indeed difficult to merge schools. The Administration had tried to merge some rural schools in the North District into a centralised school, but to no avail. Perhaps when a new school was to be set up in future, the Administration would invite the existing schools in the district, including the rural schools, to apply to operate the school. When there was a new school, parents would have more choices. The enrolment of some existing schools might be further reduced and they could eventually be phased out; and

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- for schools with low enrolment, the Administration would first conduct an overall assessment of the schools, including the extent of the under-enrolment, the school leadership, the school culture, and the operation standard. Starting from the beginning of 2002, when the number of classes operated by a school was less than 60% of its maximum capacity, the ED would draw up a plan to cease using or re-allocate the school premises concerned. The ED had already discussed the matter with the relevant school sponsoring bodies in April and July 2002, including those of the six schools in Tai Wai.

24. The Committee was concerned that the closure of a school would affect the students and parents. It therefore asked:

- about the criteria for closing a primary school;
- when the ED decided that a school should be closed, how early would the school be notified; and
- whether the ED would adopt a phased approach in closing a school, such as by ceasing the allocation of Primary One students to the school in the first place and extending the cessation to other grades in the school on a one-grade-per-year basis.

25. The **Director of Education** explained that the ED's plan was to close a primary school about three years after it had stopped operating Primary One classes. The whole process should not last for five to six years as very few operating classes would remain in the last few years. Primary One classes would be stopped first, followed by the higher grades.

26. In his letter of 6 December 2002, in *Appendix 57*, the **Director of Education** informed the Committee of the main factors that triggered the consideration of closing an aided primary school, as follows:

- the supply and demand of primary school places of a district and school net;
- the enrolment and class structure of a school;
- the performance of a school in terms of management and organisation, learning and teaching, student attainments, etc.;

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- the transportation and future development of an area; and
- the operating costs.

27. Referring to the EMB's plan to tighten the criteria for operating Primary One classes from the 2003-04 school year, the Committee was concerned whether the Administration had consulted the schools and affected parties before drawing up the revised criteria. It therefore asked whether:

- the school sector had been duly informed of the proposal; and
- the relevant parties had been properly consulted and, if so, their response.

28. The **Permanent Secretary for Education and Manpower** and **Mr LEE Kwok-sung, Assistant Director of Education (Planning & Research)**, stated that:

- all schools understood the criteria for operating Primary One classes and the consequence of not being allowed to operate any such class. It was the established mechanism that if a school was not allowed to operate any Primary One class at the beginning of a school year, it would have to cease operation after three years;
- staff of the ED's Regional Education Office had been in close liaison with the schools. If a school was required to stop operating a Primary One class in the following school year, the ED's regional staff would have informed the school in advance. Actually, the ED had held a briefing session in June 2002 for those schools which were required to reduce their Primary One classes in September 2002. After collating the opinions received at the briefing session, the ED would further discuss with the schools concerned; and
- arrangements were also being made by the ED to consult the Hong Kong Subsidised Primary Schools Council and the POA Committee on the revised criteria. Details of the finalised proposal should be available by January 2003.

29. The Committee questioned whether the revised criteria for determining the number of classes that a school might operate were objective enough.

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30. In response, the **Director of Education** and the **Permanent Secretary for Education and Manpower**, vide their letters of 6 December 2002 and 29 January 2003 (in *Appendix 58*) respectively, elaborated on the existing and revised criteria for operation of Primary One classes and how schools were informed of the number of Primary One classes they were allowed to operate. They stated that:

- in early September, each school would be informed of the provisional number of Primary One classes to be operated for the following school year, which was calculated as the number of Primary Six classes in the current school year or the number of classrooms divided by six (whichever was the greater and subject to the availability of classrooms). Schools were also clearly informed that the provisional number of Primary One classes, based on which the notional quota of discretionary places was calculated, was only tentative and was subject to adjustment in relation to the actual demand;
- the overall number of Primary One classes to be operated by primary schools was primarily based on the actual demand for Primary One places within the school net. To decide the number of Primary One classes which a primary school might operate, the ED would take into consideration a number of factors, including the number of classrooms available, the optimum class structure for the school, the number of children already admitted by the school during the Discretionary Places Admission stage and parental choices in the Central Allocation stage;
- based on the result of a computer analysis of the actual choices made by parents during the Central Allocation stage, the ED would work out the tentative number of students to be allocated to each primary school. Currently, as a matter of principle, if the number of children allocated to a particular class of a school was less than half of a normal class size, and at the same time, there were still unfilled places in the other schools of the same school net, the school might not be allowed to operate that particular class; and
- for better resources management and to minimise the situation of under-enrolled classes, the criteria for operating Primary One classes would be tightened as from the 2003-04 school year. If the total number of students allocated to a Primary One class of a school was less than 23, the school might not be allowed to operate that class.

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31. On the consultation with the school sector, the **Permanent Secretary for Education and Manpower** advised in her letter of 29 January 2003 that:

- the EMB had consulted the relevant primary school council and the committee on the revised criteria, and schools had been duly informed of the arrangement in writing in January 2003; and
- the EMB would inform schools of the approved number of Primary One classes for the 2003-04 school year in April 2003.

Enrolment and class size

32. The Committee understood from paragraphs 3.2 to 3.9 of the Audit Report that the current standard class size in primary schools is 30 or 32 for classes using the activity teaching approach, and 35 or 37 for classes using the conventional teaching approach. Audit noted that of the 11,742 operating classes in all public-sector primary schools in the 2001-02 school year, 4,782 (i.e. 41%) were over-enrolled. The over-enrolment situation was serious in 286 classes, where the actual number of students exceeded the standard class size by seven or more students. The worst case was a Primary Six class of a school in Tai Po, where 42 students were enrolled in a class adopting the activity teaching approach. In another case, School G had a capacity of 872 school places but it had enrolled 204 more students (or 23%). On the other hand, paragraph 3.11 of the Audit Report revealed that a serious under-enrolment situation existed in some classes where the unfilled places were eleven or more.

33. The Committee asked about the reasons for the serious over-enrolment and under-enrolment situations in some schools, and whether the Administration would take any measures to ensure that schools would keep to the standard class size as far as possible.

34. The **Permanent Secretary for Education and Manpower** and the **Director of Education** explained that:

- the total number of students allocated to each class through Discretionary Places Admission and central allocation was strictly in accordance with the standard class size. The situation of over-enrolment and under-enrolment had arisen due to parental choices and the force of the market mechanism. After the allocation of school places by the ED, some parents might choose not to let their children enroll in the schools allocated to them. On the other hand, some popular schools might accommodate a few more students. As a result, the actual enrolment of a class would differ from the standard class size;

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- there was no definite conclusion on the most suitable class size. Actually, the effectiveness of teaching and learning depended more on the instructional methods of the teachers than the number of students in a class. It would be more appropriate to allow schools to make their own professional judgement on whether they could admit students in excess of the standard class size and to allow parents to make the choice. Nevertheless, when admitting students, schools had to observe the approved capacity of each classroom, or the maximum capacity of 45 students for a classroom permitted by the fire safety regulations, etc., whichever was the less; and
- the ED would “pack” as far as possible under-enrolled classes for cost-effectiveness. Moreover, schools that could not admit enough students after the Central Allocation stage might be required to reduce their number of Primary One classes according to the revised criteria for operation of such classes.

35. It appeared to the Committee that as long as the approved capacity of the classrooms was not exceeded, the Administration would turn a blind eye to the situation of over-enrollment. The Committee referred to the school in Tai Po in which there were 42 students in a Primary Six class adopting the activity teaching approach. Compared to the standard class size of 30 students for an activity approach (AA) class, the actual number of 42 exceeded the standard class size by 40%. The Committee questioned whether:

- the school was adopting the AA in name only, while the class size was in fact too large for genuine activity approach teaching; and
- the Administration would take any action to rectify the situation.

36. The **Permanent Secretary for Education and Manpower** and the **Director of Education** said that:

- it might be too rigid and inappropriate to judge whether the AA was adopted simply by the number of students in a class. Nowadays, the AA was regarded as a kind of student-centred instruction methodology which aimed at helping students to develop an independent mind. It would be more important that the teachers were able to stimulate students to think and participate in discussions in class. Moreover, different class sizes might suit different subjects. For instance, smaller classes might be suitable for language subjects as more attention could be given by the teachers to the disparities of the students and students would have more chances to practise their oral and writing skills. On the other hand, a larger class would facilitate the generation of more viewpoints for discussions; and

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- it was inconclusive that a causal relationship existed between class size and learning effectiveness. Other factors like family support to the students, the students' background and aptitudes, the use of an appropriate instruction methodology might have a greater impact on learning than class size. From experience, there were some classes with more than 40 students each and the teachers still did not find the task difficult. The students also had good academic performance. In contrast, there were some classes which had only 20 students each but the teachers already felt that the task was too demanding because they had to take care of the students like nannies. In fact, too small a class was not conducive to effective learning due to a lack of interaction between students and a lack of positive competition.

37. In the light of the Administration's reply, the Committee asked whether it considered that the standard class size of an AA class should be abolished or reviewed. The Committee also noted from paragraph 1.11(e) of the Audit Report that the Administration would conduct a study to identify the pre-conditions for effective learning in small classes. It asked about the timetable and scope of the study.

38. In her letter of 2 January 2003 in *Appendix 59*, the **Permanent Secretary for Education and Manpower** advised that:

- there had been new developments on the primary school curriculum with the release of the "Learning to Learn - The Way Forward in Curriculum Development" in 2001 and the "Basic Education Curriculum Guide - Building on Strengths" in 2002 by the Curriculum Development Council. Under the new curriculum, primary schools were expected to adopt student-centred learning and teaching approaches. AA was only one of such approaches. Schools adopting AA would be allowed to maintain their existing class size for the time being. Standardisation of the class size of AA and non-AA classes would only be made gradually to enable schools to cope with the changes; and
- the Administration was still considering the details about the study on small class teaching, including its timetable and scope. It would take into account findings from overseas studies, advice from local and non-local experts and the present local context in working out the design of the study.

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39. As the standard class size of an AA class was smaller than that of a conventional class, the Committee asked whether it was possible that some schools which could not admit enough students might claim to be adopting the AA in order to avoid a reduction in the number of their classes and the need to lay off redundant teachers.

40. The **Permanent Secretary for Education and Manpower** replied that schools had to go through an application process if they wanted to adopt the AA. The ED would focus on the teaching effectiveness of the schools rather than their class size.

41. The Committee understood that the Administration would try to “pack” under-enrolled classes in order to save costs, and reduce the number of classes that a school was allowed to operate if it could not admit enough students. The Committee also noted that some students allocated to a school might initially enrol at the school but did not turn up after the school year had started and as a result, the number of students in the classes of the school might drop below 23. The Committee enquired whether, under such circumstances, the ED would require the school to cease operating those classes.

42. The **Permanent Secretary for Education and Manpower** said that the ED would inform the schools of the approved number of Primary One classes for the next school year in April or May 2003. By then, the schools would know the number of classes to be reduced and the number of teachers to be made redundant. Normally, unless the decrease in the number of students was very great, the ED would not require a school to cease operating a class after the school year had begun to avoid affecting the students. The ED would prefer to deal with the under-enrolment in the following school year.

School Improvement Programme

43. According to paragraphs 4.5 and 4.6 of the Audit Report, as at the beginning of the 2001-02 school year, there were 18 schools each of which had eleven or more vacant classrooms. Audit found that the improvement works under the School Improvement Programme (SIP) had been completed in three of these 18 schools (i.e. Schools I, J and K), and SIP works were scheduled to be carried out in the remaining 15 schools. Audit considered that it was questionable whether there was a need for SIP works to be carried out to provide additional floor areas at Schools I, J and K.

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44. Paragraphs 4.7 and 4.8 of the Audit Report also revealed the ED had approved a budget of \$33 million for carrying out the SIP works at a whole-day school in Wah Fu Estate. This school had 23 classrooms but 14 were vacant. The major item of the improvement works planned was to build a six-storey multi-purpose annex. Audit considered that a more cost-effective way to upgrade the facilities at this school was to convert the existing vacant classrooms into various function rooms under the SIP, instead of building a new annex. The Committee asked whether the Administration agreed to Audit's view.

45. The **Director of Education** responded that it was the Government's target to implement whole-day primary schooling for all students by the 2007-08 school year. To fulfill this target, new schools were built and no single classroom would be given up. In other words, all the vacant classrooms in those schools for which SIP works had been carried out would be used by the commencement of the 2007-08 school year.

46. The **Permanent Secretary for Education and Manpower** supplemented that:

- when the ED sought funding approval for the SIP works for these schools, there was no data then to indicate that the population of children in the age group of six to eleven would decrease rapidly;
- it was the SIP's aim to upgrade the teaching and learning environments of schools. Although there were vacant classrooms in these schools, the SIP works were still justified because poor facilities could be one of the reasons for their low enrolment. They might be able to attract more students after their school premises had been upgraded. If the low enrolment was due to the schools' poor operating standards, the ED would deal with the problem by taking back the school premises and allocating them to other school sponsoring bodies. In this way, educational resources would not be wasted; and
- given the current fiscal constraints, the Administration was reviewing the cost-effectiveness of the SIP works for individual schools. For instance, for those schools which only had six or seven classrooms and there was no way to bring their facilities up to the present-day standards, the ED might only carry out some instead of all the SIP works. In the review, the ED would also take into account the projected decline in the student population and look into the possibility of merging those schools that were surplus to requirements, etc..

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47. On the question of whether the Administration had informed the LegCo of the existence of the large number of vacant classrooms in these schools when it sought funding approval for the SIP works concerned, **Mr Patrick LI, Assistant Director of Education (Infrastructure)**, said that when the ED sought funding approval from the LegCo, all the vacant classrooms in these schools were projected to be required for meeting future demand for school places. Otherwise, the ED would have converted them for other uses.

48. To ascertain the justifications for carrying out the SIP works at Schools I, J and K to provide additional floor areas, the Committee enquired:

- at the time of seeking the LegCo's funding approval for the SIP works concerned, why the ED considered that the vacant classrooms in these schools would be needed for use as classrooms;
- whether the existence of the large number of vacant classrooms in these schools at the time of the audit review was due to a change of circumstances and, if so, what the changes were; and
- about the details of the uses proposed by the ED for the vacant classrooms in these three schools.

49. The **Director of Education** provided a detailed response vide his letter of 19 December 2002 in **Appendix 60**. He stated that:

School I

- when the ED sought funding approval from the LegCo for the SIP works in May 1996, six of the 11 vacant classrooms were retained with a view to alleviating the school place demand as projected on the basis of the population projection at that time;
- the only change of circumstances was that the school had been experiencing a decline in Primary One intakes since it was located in an "aging" district. In the 2000-01 and 2001-02 school years, more new arrival children (NAC) had been admitted, particularly at Primary Two level. However, the demand of school places arising from the NAC was expected to drop significantly in the 2002-03 school year;

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- this was a 30-year old premises. In the 2002-03 school year, this 23-classroom school operated 13 classes. With seven classrooms having been converted for other educational uses, the actual number of vacant classrooms was three;

School J

- when the ED sought funding approval for the SIP works in May 1997, 11 vacant classrooms were retained in anticipation of the implementation of whole-day primary schooling which, as considered on the basis of the population projection at that time, might otherwise need to be provided through the building of new schools;
- there had been a decline in the number of operating classes of this school in recent years. This was mainly due to the drop in demand for primary school places;
- in the 2002-03 school year, this 24-classroom school operated 12 normal classes. The school converted the remaining classrooms into special rooms;

School K

- when the ED sought funding approval for the SIP works in May 1997, 11 vacant classrooms were retained in anticipation of the implementation of whole-day primary schooling;
- the existence of a large number of vacant classrooms was due to the decline in the school-age population in the district in the past few years and the fact that the school was situated in an aloof site and was not easily accessible; and
- the school had changed most of its surplus classrooms for other uses, such as remedial teaching (involving two classrooms) and a parent resources centre.

50. The Committee noted from paragraphs 4.12 to 4.17 of the Audit Report that five of the 167 primary schools that were included in Phase V of the SIP were likely to be closed down. One of these five schools was located in the Lower Ngau Tau Kok Estate and was expected to be demolished by 2008-09 at the latest. The other four were rural schools that were considered by the ED as schools that were surplus to requirements. The Committee queried the need to incur substantial expenditure on the SIP works at these schools.

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51. The **Assistant Director of Education (Infrastructure)** replied that:

- the scope of the SIP works for the school in Lower Ngau Tau Kok Estate had been reduced in the light of the scheduled demolition of the school in 2008-09 under the Housing Authority's Comprehensive Redevelopment Programme;
- only "essential items" had been included in the SIP works for Schools I, J and K and the school in Lower Ngau Tau Kok Estate. The costs involved were significantly less than those for schools for which the full scope of works in the SIP was carried out; and
- the ED was aware of the fact that rural primary schools had all along faced the problem of under-enrolment and as a result had a high cost of operation per student. A comprehensive review of the future development of rural primary schools was being conducted. As the demand for these schools might not be great, the Administration had decided to shelve the SIP works for 62 rural schools for which the SIP works had not yet commenced.

52. The Committee asked how the respective amounts of expenditure on the SIP works for these four schools compared to the expenditure on those schools for which the full scope of SIP works were carried out.

53. In his letter of 19 December 2002, the **Director of Education** advised that:

- for the school in Lower Ngau Tau Kok Estate, other than a preparation room for computer-assisted learning and a light weight canopy, the reduced scope of works covered solely conversion works to provide for core/essential items including a computer-assisted learning room, a language room, a multi-purpose room, a student activity centre and two supportive rooms. These facilities would be used by the students for at least five school years;
- the "essential items" of SIP works under Phases II and III in which works for Schools I, J and K were carried out included staff rooms, a staff common room, interview rooms, a student activity centre, a library and disabled access only; and
- the costs of the SIP works for Schools I, J, K and the school in Lower Ngau Tau Kok Estate as compared to the average cost/budget ceiling for full scope of SIP works conducted in the respective phases were:

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School	SIP Phase	Estimated cost	Average cost/budget ceiling * for full scope of works in respective SIP phases
I	II	\$13.15 m	\$18.66 m
J	III	\$14.84 m	\$21.81 m
K		\$14.17 m	
School in Lower Ngau Tau Kok Estate	V (Final Phase)	\$6.08 m	\$32.96 m

(*There was no budget ceiling for projects in Phases II and III. Thus, instead of budget ceiling, only the average cost for Phases II and III was provided.)

54. In view of the above information provided by the ED, the Committee invited the Director of Audit to comment on whether, after examining the additional information, he still considered that the need to carry out the SIP works at Schools I, J and K was questionable.

55. The **Director of Audit** offered his comments vide his letter of 7 January 2003, in *Appendix 61*. He advised that:

- the crux of the matter was that there were 11 vacant classrooms each in Schools I, J and K when funding for the SIP works was sought in 1996 and 1997. In respect of the SIP works for School I, five of the 11 vacant classrooms were converted to alternative uses and six remained vacant. However, five additional classrooms were also provided in the new annex built under the SIP. Because of the low enrolment in the school, the total number of vacant classrooms remained at 11 after the SIP works were completed (as mentioned in Table 12 of paragraph 4.5 of the Audit Report). It was considered that the six remaining vacant classrooms could also have been converted to provide the “essential items” of the SIP, while the five new classrooms would not have been required. This would have obviated the need for building the new annex;
- in respect of Schools J and K, similarly, the 11 classrooms that were vacant in each school at the time of funding approval provided significant usable floor areas which could also have been converted into various function rooms;

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- according to Table 12 of the Audit Report, there were still significant numbers of vacant classrooms in Schools I, J and K at the beginning of the 2001-02 school year (i.e. 11, 11 and 17 respectively) after the completion of the SIP works. It was worthy of note that these three schools had been experiencing difficulties to attract students. For the 2002-03 school year, the number of Primary One applications for discretionary places each school received was about ten; and
- in view of the above, he was of the view that the “essential items” of the SIP could have been provided to Schools I, J and K by converting the then vacant classrooms into various function rooms, instead of building additional floor areas. Had such an approach been adopted, the cost of SIP works carried out would have been reduced significantly. After reviewing the information provided by the Director of Education, he maintained the view that the need to provide additional floor areas at Schools I, J and K was questionable.

56. The **Secretary for Education and Manpower**, in his letter of 24 January 2003, in *Appendix 62*, responded to the Director of Audit’s comments. He stated that:

- the Director of Audit’s major query was that if the vacant classrooms in the three schools’ old premises had been used to house the “essential items” provided for under the respective SIP projects, the two annexes in Schools I and K and the additional floor area in School J would have been unnecessary given that subsequent enrolment of the schools did not justify the retention and/or provision of new classrooms. He had the following views on the Director of Audit’s comments:
 - (a) the reason for retaining the vacant classrooms in School I (six classrooms), School J and School K (11 classrooms each) and building additional classrooms in Schools I and K (five classrooms each) under the respective SIP projects was that they were anticipated to be required to meet the projected demand at the time when funding approval was sought in 1996 for School I and in 1997 for Schools J and K. In the cases of Schools J and K, the classroom requirement for implementation of whole-day primary schooling had also been taken into account. In other words, based on the data then available, there was a need to reserve sufficient number of vacant classrooms in the three schools to meet the projected demand; and

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- (b) to improve the classroom teaching and learning environment, the ED had accommodated five of the required classrooms in each of Schools I and K in the new annexes built under the respective SIP projects. For the vacant classrooms of equivalent number in the old premises, they were substandard and did not meet modern day educational needs of the students. These classrooms were therefore converted into alternative uses;
- the use of most or all of the vacant classrooms in Schools I, J and K had been changed to other teaching and learning activities in the 2001-02 school year. This was to take account of the latest enrolment situation and the latest projection of the supply and demand of primary school places;
- population projection formed the basis for planning the provision of school places. Planners could only use the latest data available to them and it was unreasonable to assume that they could foretell the drop in demand for school places a few years down the road; and
- to ensure prudent use of public funds, the EMB would continue to monitor the enrolment situation of the three schools and would closely liaise with them to make sure that available resources including their vacant classrooms were put to the best use for the benefits of teaching and learning.

57. The Committee referred to the Director of Education's statement that all the vacant classrooms in these schools would be used by the commencement of the 2007-08 school year. As there was still quite a long time before 2007, the Committee asked whether the Administration would encourage the schools to make use of the vacant classrooms temporarily instead of allowing them to be left idle in the coming few years.

58. The **Permanent Secretary for Education and Manpower** and the **Director of Education** said that the Administration would not allow the classrooms to be left idle until 2007. It would take measures to optimise the use of the classrooms, such as by allocating more students to these schools while requiring them to improve their teaching quality. The ED also offered schools incentive and flexibility to make full use of the space in their premises.

59. The Committee further asked whether the Administration had imposed any restrictions on the conversion of vacant classrooms for other uses or had provided the schools with assistance in this regard.

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60. In his letter of 29 January 2003, the **Secretary for Education and Manpower** stated that:

- the EMB had not imposed any specific restrictions on the conversion of vacant classrooms. However, in September 1999, it had issued to all aided schools an Administrative Circular, stipulating the guidelines that schools should follow if they wished to make any changes to the use of rooms (including vacant classrooms) in their schools. In general, schools should take into account the following considerations:
 - (a) whether structural conversion was involved and, if so, whether such conversion complied with stipulated requirements overseen by various government departments;
 - (b) whether the change of room use was hazardous to the health and safety of pupils and staff;
 - (c) whether the quality of teaching and learning was affected; and
 - (d) whether additional recurrent and/or non-recurrent subsidies from the Government were involved;
- depending on the specific circumstances of schools, the EMB had also carried out works for conversion of vacant classrooms in schools into alternative uses under the SIP for the benefits of teaching and learning; and
- the EMB would continue to closely monitor the room use situation in schools and liaise with schools on the ways to improve the utilisation of vacant classrooms, as appropriate and necessary.

Rural primary schools

61. The Committee noted that the Administration was conducting a comprehensive review of the future development of rural primary schools. As many rural primary schools were not able to provide a suitable environment for quality education and social development due to their inferior facilities and the small number of students, the Committee asked whether the Administration would expedite the review and phase out without delay those rural schools that were no longer necessary.

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62. The **Permanent Secretary for Education and Manpower** responded that:

- the review was underway and was expected to be completed by the summer of 2003. In the face of the present fiscal constraints, the Administration was keen to close those schools that had high operating costs, such as rural schools. The EMB was most willing to explore ways to save resources without adversely affecting the quality of education, and it would discuss with the school sponsoring bodies concerned where necessary; and
- in the review of the development of rural primary schools, the Administration would take into account the situation of different schools and make appropriate arrangements. Rural schools that only had a few students incurred a very high operating cost. The Administration intended to merge, relocate or phase out such schools wherever possible. It would explore ways to facilitate the transportation of the students to other districts to attend schools with better facilities. One option was to provide school buses for the students. For those rural schools that were located not very far away from one other, they could be replaced by centralised schools. The Administration would explore the possibility of expediting the construction of centralised schools. The Administration would review the situation of each and every rural school to map out the most appropriate arrangements.

63. Paragraph 5.6 of the Audit Report stated that the ED had not drawn up any timetable for closing down the remaining four rural schools in Category C (i.e. rural schools that were classified as surplus to requirements). The Committee asked whether any progress had been made.

64. The **Permanent Secretary for Education and Manpower** and the **Director of Education** replied that:

- as the students in the Category C schools could be transferred to standard schools nearby, the ED was already discussing with the schools concerned with a view to closing them down; and
- actions would also be taken to phase out these schools if the number of students they admitted during the Discretionary Places Admission and Central Allocation stages did not meet the criteria for operation of Primary One classes.

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Government primary schools

65. According to paragraph 6.20 of the Audit Report, government primary schools were more costly to operate than aided primary schools. In 2001-02, the cost differential was about \$5,700 per student. In view of the substantial cost differential, the Committee asked whether the Administration agreed that there was a need to reduce the number of government primary schools.

66. The Committee also noted from paragraph 6.25(b) that the Director of Education had undertaken to explore the feasibility of using contract terms to hire future staff in government schools as far as practicable. The Committee enquired whether the Administration had now decided that the use of contract staff was feasible and whether there was any resistance from the staff side.

67. The **Permanent Secretary for Education and Manpower** and the **Director of Education** responded that:

- the EMB considered that there was a need to retain government schools as they played a leading role in piloting many education initiatives. For example, school-based management was first introduced in government schools three years ago;
- due to the severe budget deficit of the Government, the EMB was discussing with the principals and teachers of government schools the feasibility of using contract terms to hire staff. Furthermore, given the drop in the demand for school places due to the decreasing number school-age children, the scale of operation of government schools would have to be trimmed down. Some teaching posts might not be needed in the long term and so would have to be filled by staff on contract terms. As a matter of fact, the ED had had the experience of hiring non-civil service contract teachers in primary schools. When deciding on the matter, the ED would take into account the future development of government schools in the light of the declining student population. It would also consider the terms of the contract;
- regarding staff reaction, some teachers had expressed concerns about the proposal as the reasons for their joining government schools were to secure a stable job, and to be able to change schools if they so wished. Also, government schools offered more promotion opportunities; and

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- in any case, the ED would begin to try using contract terms to hire staff in government schools from 2003. Nevertheless, the Administration wished to make clear that contract teachers would not necessarily be the first ones to be laid off when there were excess teachers in a school due to merger or other reasons. The Administration would certainly take into consideration the ability and performance of individual teachers when making such decisions.

68. The Committee queried whether there was really a need to retain government schools for trying out education initiatives. It considered that some aided schools might be willing to be pioneers. The Committee further asked whether the Administration would build new government schools.

69. The **Permanent Secretary for Education and Manpower** said that:

- same as aided primary schools, government primary schools also faced the problem of declining school-age population. If they had difficulty admitting sufficient students, the Administration would consider the option of merging them or ceasing their operation. In deciding whether to build new government schools, the EMB would take into account factors like the demand for school places due to the implementation of whole-day primary schooling in government schools; and
- retaining a small number of government schools could ensure that the ED's staff had frontline teaching experience. This would enable the staff to better understand the actual situation in schools and the needs of different types of students. It was not always possible to require sponsoring bodies to reserve teaching posts for the ED's staff. Moreover, in respect of student admission, government schools would not be choosy.

Primary One Admission system

70. The Committee understood from paragraphs 7.30 to 7.32 of the Audit Report that the ED's current system for preventing and detecting the reporting of false residential addresses by parents had its limitations because the documents requested by the ED for residential addresses were not entirely reliable. Audit considered that the ED should strengthen the verification process by conducting home visits on a selective basis and take a tougher stance against those parents who were found to have used false addresses to gain an unfair advantage in the POA process. The Committee asked about the Administration's view on Audit's recommendations.

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71. The **Director of Education** and the **Assistant Director of Education (Planning & Research)** said that:

- the ED doubted the cost-effectiveness of home visits as a lot of manpower and time would be involved. Moreover, home visits could only be conducted with the consent of the people concerned; and
- in order to deter the use of false addresses, the ED was considering the feasibility of requiring parents to report their addresses under oath.

72. The Committee pointed out that if parents reported their addresses under oath, it would be a criminal offence to report false addresses and the penalty would be very heavy, including imprisonment. As the parents' reason for using false addresses was to enhance their children's chance of being admitted to some schools, the Committee wondered whether it was justified to impose such heavy penalty as imprisonment on those parents who were found to have reported false addresses in the POA exercise.

73. To ascertain the severity of the situation of using false address, the Committee enquired about the number of complaints on false address and the number of substantiated cases in the past five years. The **Director of Education** provided the information vide his letter of 19 December 2002, as follows:

School year	No. of complaints received	No. of substantiated cases
2002-03 (as at December 2002)	1	0
2001-02	4	0
2000-01	4	1
1999-2000	1	0
1998-99	4	2
1997-98	2	0

74. The Committee further asked how the ED would implement Audit's recommendation of taking tougher measures against dishonest parents. The **Director of Education** advised, in his letter of 31 December 2002, that:

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- according to the ED's records, in the past five years, there were only 15 complaints on false address and only 3 of them were substantiated after investigation. After careful consideration, the ED did not intend to take legal action against this minority group of dishonest parents for the time being as this would complicate the POA procedure and cause inconvenience to the majority of the parents. The ED believed that, in the long run, raising the quality of education provided by all schools would be more basic in minimising the luring factor for the use of false address; and
- the ED would keep close watch of the situation on the use of false address in the POA exercise and continue to explore ways of further strengthening the effectiveness of the existing system. As the situation of using false address was not serious, the ED considered that there was no urgent need of taking tougher measures against dishonest parents at the present stage.

75. Conclusions and recommendations The Committee:

Planning and provision of public-sector primary school places

- expresses concern that:
 - (a) by 2010, the overall supply of primary school places would exceed the overall demand by 27,600 school places, which is equivalent to 35 standard schools, and mismatches would occur in nine of the 18 districts;
 - (b) the expected excess supply of primary school places is unlikely to reverse, as the number of children in the age group of six to eleven is expected to remain at a low level for the next two decades;
 - (c) of the 69 new schools that were being planned, 22 were for the seven districts where there would be a significant excess supply of school places;
 - (d) not enough school places are being planned for two districts where there will be a serious shortfall of school places; and
 - (e) some schools had each seven or more vacant classrooms, which represent under-utilisation of existing educational resources;

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- notes that:
 - (a) the Education and Manpower Bureau (EMB) will tighten the criteria for operating Primary One classes from the 2003-04 school year, to the effect that if the total number of students allocated to a Primary One class of a school is less than 23, and there are still unfilled Primary One places in other schools of the same school net, the school may not be allowed to operate that class;
 - (b) the EMB has decided to suspend nine school projects in the seven districts projected to have excess supply of primary school places in both 2007 and 2010 based on the latest population projection, and another five school projects due to various reasons, e.g. high site formation costs and technical constraints of the school sites concerned; and
 - (c) the EMB plans to construct a total of 19 new primary schools from 2003 to 2007 in the four districts with a projected shortfall of school places in the light of the latest population forecast;
- urges the Secretary for Education and Manpower to:
 - (a) explore measures to address the problem of expected serious excess supply of school places;
 - (b) review the school building programme, taking into account:
 - (i) the savings that can now be achieved due to the suspension of the school projects; and
 - (ii) the need to expeditiously reprovision or redevelop existing schools which have poor physical conditions; and
 - (c) consult the Legislative Council (LegCo) and parties concerned regarding the revised criteria for operating Primary One classes;

Enrolment and class size

- expresses concern that:
 - (a) a serious over-enrolment situation existed in some classes where the actual number of students exceeded the standard class size by seven or more; and

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- (b) a serious under-enrolment existed in some classes where the unfilled places were eleven or more;
- acknowledges that the EMB will conduct a study to identify the pre-conditions for effective learning in small classes and is considering the details of the study, including the timetable and scope;
- urges the Secretary for Education and Manpower to consult the LegCo and parties concerned when conducting the study on small class teaching;

School Improvement Programme

- expresses serious dismay that some schools had not made use of their vacant classrooms although they had been left idle for a long time;
- expresses concern that:
 - (a) the School Improvement Programme (SIP) can be more cost-effectively carried out in schools with many vacant classrooms by converting vacant classrooms into various function rooms, instead of building additional floor areas; and had such an approach been adopted, the cost of the SIP works carried out would have been reduced significantly; and
 - (b) five schools that would be closed down are included in Phase V of the SIP;
- notes the Director of Education's statement that according to the ED's projection, all the vacant classrooms in those schools for which SIP works had been carried out would be used by the commencement of the 2007-08 school year when whole-day primary schooling was fully implemented;
- acknowledges that the EMB has decided to shelve the SIP works for 62 rural schools as the demand for such schools may not be great;
- urges the Secretary for Education and Manpower to:
 - (a) explore ways to make use of the vacant classrooms temporarily, pending full implementation of whole-day primary schooling;
 - (b) re-examine the SIP plans for schools which have many vacant classrooms and, where feasible, convert the existing vacant classrooms into various function rooms, instead of building additional floor areas; and

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- (c) shelve the SIP works or reduce the scope of the works to be carried out for schools that will be closed down in the near future, having regard to the remaining life span of the schools concerned;

Rural primary schools

- expresses concern that many rural schools are not able to provide a suitable environment for quality education and social development because of the inferior facilities and the small number of students;
- acknowledges that the EMB:
 - (a) has drawn up a timetable to phase out all Category C rural schools that are surplus to requirements; and
 - (b) is reviewing the future development of rural primary schools;
- urges the Secretary for Education and Manpower to draw up action plans to transfer students attending rural schools to nearby standard schools as far as possible, so as to ensure that the students can study in a more suitable school environment with better school facilities;

Government primary schools

- expresses concern that:
 - (a) government primary schools are not evenly distributed in accordance with the broad guidelines that each district should have one government primary school; and
 - (b) the cost differential between operating government primary schools and aided schools had widened from 21% in 1990 to 26% in 2001;
- acknowledges that the EMB:
 - (a) is reviewing the role, provision and the future development of government primary schools; and
 - (b) will try using contract terms to hire staff in government schools from 2003;

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Primary One Admission system

- expresses concern that:
 - (a) about half of the parents who responded to the audit survey considered that the Primary One Admission (POA) information provided by the ED was insufficient and were not satisfied with the information provided; and
 - (b) the ED's current system for preventing and detecting the reporting of false addresses by parents has its limitations because the documents requested by the ED for residential addresses are not entirely reliable;
- urges the Secretary for Education and Manpower to:
 - (a) take appropriate action to provide the public with additional information on the POA process, which is mentioned in paragraph 7.12 of the Audit Report; and
 - (b) provide a hyperlink to the POA on the front page of the EMB's Website throughout the year; and

Follow-up actions

- wishes to be kept informed of:
 - (a) the progress of all the actions taken by the EMB to ensure that the standard class size is followed as far as possible;
 - (b) the progress of the study on small class teaching;
 - (c) the actions taken by the EMB to improve the cost-effectiveness in the implementation of the SIP;
 - (d) the progress made by the EMB in phasing out rural schools;
 - (e) the outcome of the review of the future development of rural primary schools; and
 - (f) the outcome of the review on the role, provision and development of government primary schools.

Chapter 6

Primary education - The administration of primary schools

The Committee held a public hearing on 5 December 2002 to receive evidence on this subject. The Committee also received additional information from the witnesses after the public hearing.

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

Chapter 7

Primary education - Delivery of effective primary education

Audit conducted a review on the existing arrangements for the delivery of effective primary education by public sector schools (i.e. aided and government schools) and identified areas where improvements could be made.

2. At the public hearing, **Mrs Fanny LAW FAN Chiu-fan, Permanent Secretary for Education and Manpower**, made an opening statement on behalf of the Secretary for Education and Manpower. She said that:

- the Administration considered that many of the Director of Audit's recommendations were in line with the Administration's measures to further improve the education system of Hong Kong, which stressed a balanced development of students in the domains of ethics, intellect, physique, social skills and aesthetics;
- to dovetail with the reform in the education system and school curriculum, the Administration compiled, in July 2002, a series of materials entitled "Basic Education Curriculum Guide - Building on Strengths". Apart from providing recommendations of a central curriculum for schools and time allocation, the Guide also provided suggestions for actions in school curriculum planning, learning and teaching and assessment to improve the quality of education, and for school-based adaptations to build on the strengths of Hong Kong schools as well as to meet the needs of students;
- the establishment of a self-assessment mechanism for schools to facilitate self-improvement was an important aspect of schools-based management (SBM). The Administration would strengthen the implementation of self-assessment for schools. Through external assessment, training for school leadership and self-assessment for schools, the schools would deliver quality education more effectively;
- since the implementation of the education reform and the abolishment of the Academic Aptitude Test in 2000, the Administration was encouraged to note that many schools had shown improvement. On the other hand, to address the problem of variance in students' levels in the three core subjects (Chinese, English and mathematics), the Administration was currently implementing the Basic Competency Assessments in these three subjects to enable teachers and parents to understand students' learning progress and needs and to give appropriate and timely assistance so that students who had different levels of competency could attain the basic standards;

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- the Administration shared the concern expressed in the Audit Report that there was much room for improvement by schools in the performance appraisals of their principals and teachers. The Administration considered that, in order to fully develop the spirit of SBM, it should assist schools in the establishment of a well-developed system which dealt with the problems of staff appraisal, award and punishment in the light of administrative needs. The Administration would therefore expeditiously conduct a review of the “last-in, first-out” (LIFO) arrangement; and
- to promote the professional development of teachers and affirm the leadership role of principals, the Administration would, apart from providing various training activities for teachers, implement measures on continuing professional development of principals so that the teaching profession would, like other professions, develop and improve continuously.

Achievement of primary-education objectives

3. The Committee noted that in order to better achieve the objectives of primary education recommended by the Education Commission (EC) which had been adopted by the Government, Audit had recommended that the Director of Education¹ should, inter alia, expedite action to implement the recommendations of Home Affairs Bureau (contained in its report on Sports Policy Review of 2002) on conducting fitness tests for students and encouraging schools to make use of venues of the Leisure and Cultural Services Department (LCSD) to organise sports events. In response, the Director of Education had said in paragraph 2.55(b) of the Audit Report that the Education Department² (ED) would commission tertiary institutions to conduct an annual survey of students’ physical fitness and participation in sports activities from 2002 onwards. In paragraph 2.56(b) of the Audit Report, the Secretary for Home Affairs had said that the LCSD had plans to expand its services in the School Sports Programme to meet the needs of all schools in Hong Kong so that more students could benefit through the Programme.

4. Regarding the Committee’s question of whether the above annual survey had been commissioned, the **Permanent Secretary for Education and Manpower** said, vide her letter of 29 January 2003 in *Appendix 63*, that:

¹ Following the merger of the Education and Manpower Bureau and the Education Department, the post of Director of Education was deleted on 1 January 2003.

² The Education and Manpower Bureau and the Education Department have been merged from 1 January 2003 and, since then, the Education and Manpower Bureau (the new organisation after the merger) takes charge of both the formulation and implementation of education policies.

Primary education - Delivery of effective primary education

- the survey for 2002-03 school year had been contracted out to the Hong Kong Baptist University; and
- the survey for 2003-04 school year would be conducted in primary schools subject to availability of funds. Proper procurement regulations would be followed for commissioning the study to the tertiary institutions. The survey would be conducted annually in secondary and primary schools in alternate years.

5. In response to the Committee's enquiry about the utilisation rates of the LCSD's venues by schools and by other users in 2000-01 and 2001-02 respectively, the **Director of Leisure and Cultural Services** provided the statistics, vide the letter of 3 December 2002 in *Appendix 64*. He also stated that:

- the LCSD adopted the same criteria in the processing of applications for use of leisure venues from special schools and other schools; and
- in the financial years of 2000-01 and 2001-02, 234 and 241 school applications for use of the LCSD's venues had been rejected respectively.

6. Noting that the utilisation rates were low, the Committee further asked:

- about the reason for the low utilisation rates and the reasons for rejecting the schools' applications; and
- how the LCSD would expand its services in the School Sports Programme.

7. **Mrs Loran MAO, Assistant Director (Leisure Services)¹, LCSD**, responded that:

- the LCSD understood that schools could use its leisure facilities during the non-peak hours. Take the LCSD's sports centres as an example, while the non-peak hours of 7:00 am to 5:00 pm were not convenient to the general public, they were suitable for use by schools. In this connection, the LCSD had introduced a Free Use Scheme of the LCSD's sports facilities. In promoting the Scheme, the LCSD had continuously liaised with ED and school principals. It also published and sent booklets on this Scheme to schools inviting them to use the LCSD's sports centres which included respective courts for badminton, basketball and volleyball, etc. Nevertheless, the utilisation rates of the LCSD's facilities by schools were low because

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schools, particularly primary schools, only provided one session of physical education (PE) in a week which lasted for about 45 minutes. There was little time for students to take the PE lesson at the LCSD's facilities after discounting travel time. The LCSD had therefore recommended to school principals a bi-session period for PE lesson to enable the use of the LCSD's facilities for the PE lesson. The recommendation was being considered by school principals;

- the LCSD was extremely unwilling to reject the school's applications. Schools, like the general public, wished to use facilities which were new, better-equipped and at a convenient location, such as those in the sports centres of Hong Kong Park and Kowloon Park. As the time slots available for these facilities were over-subscribed, the LCSD had, apart from drawing lots to determine the allocation of slots, asked the schools concerned whether they could use facilities in other sports centres such as Lei Cheng Uk and East Kai Tak. But they declined. In other words, the LCSD rejected school's applications on the grounds that they had been unsuccessful in the drawing of lots and had declined to use facilities in other venues; and
- the LCSD hoped that more schools would participate in the School Sports Programme. In this connection, the LCSD had a team of staff dedicated to promoting the Programme. Due to resource constraints, the schools which participated in the Programme at its commencement in mid-2000 were not many. However, up to 2001, 347 schools had participated in the Programme. The LCSD hoped that in 2002-03, participating schools would increase to 750 and 400,000 students could benefit through it. The promotion of the Programme beyond 2002-03 would be considered in the light of the financial situation at that time. Nevertheless, the LCSD hoped that all primary and secondary school students could benefit through the Programme.

8. Regarding the issue of insufficient time for students to take PE lesson at the LCSD's facilities, the Committee asked whether the teaching timetable could be rearranged to enable students to do so.

9. **Mr LEE Hing-fai, Director of Education**, responded that the ED would further encourage schools to make use of the LCSD's facilities. Schools had the autonomy and flexibility to draw up their teaching timetable. Actually, the ED only imposed two restrictions on the scheduling of school holidays, namely, there should be a total of 90 days' school holidays and certain general holidays had to be taken as school holidays. Subject to these restrictions, schools could revise the schedule.

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Primary-school students' attainment in three core subjects

10. The Committee noted from paragraph 3.13 of the Audit Report that in 2000, in its proposals for reforming the education system in Hong Kong, the EC stated that the education system should not give up on any single student, but rather let all students have the chance to develop their potentials. However, Figure 11 of the Audit Report showed that, in 2001-02, 3,906 primary students who had been identified as being in need of intensive remedial teaching could not attend the remedial classes provided under the Intensive Remedial Teaching Programme (IRTP) or Resource Teaching Centre (RTC) programme.

11. The Committee asked whether it was the Administration's continuous commitment to achieve the above EC's goal that the education system should not give up on any single student and, if so, when it would provide places to meet the needs of the 3,906 students who were in need of intensive remedial teaching.

12. The **Permanent Secretary for Education and Manpower** responded, vide her letter of 25 January 2003 in *Appendix 65*, that:

- at present, every school was provided with resources for remedial teaching service. In addition, the Education and Manpower Bureau (EMB) provided extra support for primary students with learning difficulties in the form of school-based IRTP and centre-based remedial teaching service at RTCs operated by the EMB. Schools with eight or more students with learning difficulties were eligible for the provision of IRTP. For schools not operating IRTP, such students could receive remedial teaching service at RTCs. However, with the introduction of whole-day primary schooling, students often found it inconvenient to attend RTCs after school. Some declined the service due to transport or escort problems. These students had to rely on family support and the basic remedial teaching service in school; and
- to ensure more cost-effective use of resources to provide timely support to students in need, the EMB was currently reviewing the mode of remedial support services for students with learning difficulties in primary schools. The aim was to adopt a whole school approach to providing learning support to all students. This would remove the division of labour which existed between IRTP teachers and the rest of the teaching staff, and help to promote better collaboration and a more holistic approach to meeting students' needs.

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Stakeholders' roles in delivery of effective primary education

13. According to paragraph 4.7 of the Audit Report, subsequent to the introduction of the SBM initiatives in recent years, schools had embarked on developing a fair and open staff appraisal system, which was not available when the LIFO arrangement was first adopted in 1970s. Audit considered that with the establishment of staff appraisal system, schools were in a better position to assess teachers' performance which should be taken into account when deciding which teachers should be made redundant. Furthermore, the LIFO arrangement was at variance with good human resource management practices, under which the merits of staff should be the determinants for staff retention. The LIFO arrangement had the risk of alienating good teachers and rewarding mediocrity. Audit recommended, in paragraph 4.18(a) of the Audit Report, that the Director of Education should consider abolishing the LIFO arrangement.

14. In this connection, the Committee asked whether the Administration had consulted school teachers and teachers' union on the arrangement for teacher redundancy.

15. In response, the **Director of Education** said that:

- the LIFO arrangement was adopted in 1970s as a principle for dealing with redundancy of primary school teachers. Every time when the ED dealt with the teacher redundancy problem in recent years, it had contacted the relevant parties, including the school council, before making the arrangement. In fact, the detailed arrangement for the current school year had not yet been promulgated. The ED had made preliminary contacts with some organisations and they had different views on the matter;
- as the ED was promoting SBM, it dealt with the problem of teacher redundancy in line with the spirit of SBM. One of the important aspects of SBM was to deal with all problems in a fair, just and open manner. The problem of teacher redundancy would therefore be dealt with in the same manner. The ED hoped that, in dealing with the problem of teacher redundancy, schools should not simply adopt the LIFO arrangement but should examine their needs and the teachers' performance, etc. Most importantly, schools should set up an appeal mechanism for teachers affected; and
- as the ED was still conducting preliminary consultation on the arrangement for dealing with teacher redundancy in the current school year, it could not disclose details of the arrangement at this stage.

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16. The Committee noted that in order to fully develop the spirit of SBM, the Administration should assist schools in the establishment of a well-developed system to deal with the problems of staff appraisal, award and punishment in the light of administrative needs. It asked about the progress made in establishing the system and whether an appeal mechanism would be drawn up.

17. The **Permanent Secretary for Education and Manpower** responded that under the principle of SBM, all schools should put in place a staff appraisal system in the current school year. Not every appraisal system was already well-developed when it was established. Some schools did better than the others in the establishment of such system. Many schools considered that the problem of teacher redundancy should be dealt with under the principle of SBM. But schools were required to explain to their teachers their criteria in handling the problem of teacher redundancy. If schools were not fair and open in handling the problem, the teachers affected could lodge complaints against the schools. The Administration therefore hoped that an appeal mechanism should be drawn up by schools themselves under the principle of SBM.

18. The Committee asked how the problem of teacher redundancy, which was not resolved by natural wastage or the LIFO arrangement, would be dealt with.

19. The **Permanent Secretary for Education and Manpower** explained that the problem of teacher redundancy arose from the reduction of classes. Where there was a need for making teachers redundant, schools had to decide whom to lay off. As there was no teacher appraisal system in the 1970s, the simple LIFO arrangement was adopted to avoid unfair decision. Since then, the appraisal system had developed and as schools had different needs, schools might need to consider a number of factors in deciding whom to lay-off. Teachers' performance was only one of these factors. If the performance of a teacher was considered unsatisfactory, he/she should receive training or assistance to help him/her develop. Teachers' performance was not entirely linked to the arrangement for teacher redundancy. Nevertheless, schools had to identify and retain those teachers who could benefit the schools most.

20. The Committee noted from paragraph 4.17 of the Audit Report that, in view of the challenges encountered by teachers in the adoption of all-round education in schools, Audit considered that teachers needed to be given more opportunities to attend related seminars and training courses to keep themselves abreast of the latest developments in teaching techniques and methodologies. The Committee asked about the statistics on the training for primary school teachers.

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21. The **Director of Education** advised, vide his letter of 3 December 2002 in *Appendix 66*, that:

- a total of 775 training courses and 336 seminars were offered by the ED to primary school teachers in the 2001-02 school year. On top of that, the ED also conducted 281 workshops and briefings in the same year to provide primary school teachers with more opportunities to keep themselves abreast of the latest developments in education policy, school administrative arrangements, teaching techniques and methodologies;
- for training courses, seminars and workshops with statistical data available, teachers' attendance rate on average was 87%; and
- the ED provided each primary teacher with approximately an average of 42 hours in attending the training courses/seminars/workshops/briefings. In addition, every primary school was also allowed to set aside three days (a total of 18 hours) on top of the 90 school holidays per school year as staff development days for teachers to take part in school-based staff development and school planning work. In this respect, compared to the 50 hours' continuing professional development activities that all serving principals had to attend each year, the ED had actually already provided each primary school teacher with more opportunities and hours to attend the training courses/seminars, thus assisting them to continue their professional development.

Monitoring of delivery of effective primary education

22. According to paragraphs 5.23 to 5.26 of the Audit Report, the ED issued in January 1999 guidelines to schools stating that there should be formal participation of teachers, parents and, where appropriate, alumni in the school decision-making process and management. But the results of the ED's survey on membership of School Management Committees (SMCs) indicated that, up to June 2002, only 9% to 20% of the primary schools had complied with one or more of the ED's requirements on SMC membership. The Committee asked about:

- the disclosure of schools' compliance with the ED's requirements on SMC membership; and
- whether self-assessment arrangement for schools could be made in this respect.

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23. The **Permanent Secretary for Education and Manpower** responded that:

- the progress was shown in the School Profiles and the schools which had complied with the ED's requirements were listed in the ED's website; and
- the Administration would introduce self-assessment arrangement for schools in respect of compliance with the ED's requirements on the SMC membership and upload the self-assessment reports onto the ED's website in order to encourage positive competition and provide additional information to parents and students.

24. The Committee noted that in December 2002, the Secretary for Education and Manpower had introduced to the Legislative Council (LegCo) the Education (Amendment) Bill 2002 which aimed to introduce the SBM governance framework to all aided schools. The Committee enquired about the operation of SBM.

25. The **Permanent Secretary for Education and Manpower** responded that:

- the basic requirements of SBM, such as composition and powers of SMCs, were prescribed in the Bill. But more important was the spirit of the SBM, which gave the school leadership flexibility to manage their schools in order to meet individual schools' needs. Detailed control on schools by the Administration was not feasible. Parents, who should be concerned about whether the schools were well managed, and teachers of the schools concerned should take part in school management;
- monitoring of SBM by the public was also necessary. There should be increased transparency in the operation of school, particularly on the areas involving the use of public funds. To be open and transparent was the direction the Administration worked towards in recent years. Examples of such work were the publication of School Profiles and the uploading of school inspection reports onto the ED's website; and
- the most important part of SBM was that schools should have a sense of accountability whereby they were accountable to the public on how they spent the money and to the parents in respect of teaching objectives, schools' motto/values and teaching results.

Primary education - Delivery of effective primary education

26. The Committee noted from paragraph 5.43(a) of the Audit Report that the ED would help schools comply with the requirements of the new school governance framework and encourage them to do so as soon as possible without waiting till the end of the five-year transition period. The Committee enquired about the implementation timetable.

27. The **Director of Education** responded that the new school governance framework was set out in the Education (Amendment) Bill 2002. If the Bill was passed and took effect, there would be a five-year transition period but schools would be encouraged to comply with the requirements under the governance framework as soon as possible. Under the new framework, all key stakeholders, including teachers, alumni and parents, were eligible to be school managers. The ED would provide support and assistance to help them understand their duties, e.g. training course or exchange activities, so that they could effectively take part in school management.

28. According to paragraph 5.43(e) of the Audit Report, the Director of Education had said that the essence of the successful implementation of SBM depended on the educational leadership of both the governing bodies and school executive personnel. The ED would step up measures towards the less effective schools to help them improve their planning and evaluation. The Committee enquired about the details of the measures.

29. The **Director of Education** responded that the ED hoped that every school could do its management job well under the SBM governance framework. If a school was unable to address problems on which the ED had given advice and asked for improvements to be made, he was empowered under the Bill to change the school managers. The power included the appointment of a new school manager or addition of a new school manager to the relevant SMC.

30. Noting from paragraph 5.43(k) of the Audit Report that the ED would conduct a survey in November 2002 on the implementation of the staff appraisal system in schools, the Committee enquired about the results of the survey.

31. The **Permanent Secretary for Education and Manpower** responded, vide her letter of 6 January 2003 in *Appendix 67*, that the survey was conducted at the end of October 2002 and the Administration finished compiling the data in November 2002. She provided a summary of the survey results in the letter.

Primary education - Delivery of effective primary education

32. According to paragraph 5.52(b) of the Audit Report, the Director of Education had said that apart from providing guidance, advice and training by the ED to schools which had difficulties in implementing the ED's requirements on staff management, self evaluation and curriculum, schools should address their own weaknesses and take initiative to make appropriate improvements. The Committee asked whether:

- the ED's staff who were responsible for providing guidance, advice and training to schools, had received relevant training to enable them to discharge their duties; and
- the manpower of the ED could be reduced if SBM worked well.

33. The **Permanent Secretary for Education and Manpower** responded that:

- in the past, individual divisions of the ED looked after their own areas of work. However, since 2000 the ED had established district education offices and four regional education offices so that the ED could have a more thorough understanding of individual schools. Through school visits, the ED's staff could share the experience of successful schools with other schools. Even though the ED's staff might not be teachers at present or have undertaken front line work, they obtained a thorough understanding of school operation through school visits. Each of the staff in the ED's district education offices had expertise in a particular area of work. They could learn from one another and constituted a mutual learning group;
- in fact, the ED's staff had at least four to five years of teaching experience before joining the ED. They had received basic training in education ideology and had a grasp of the spirit of the education reform to enable them to have a wider view on education. In line with lifelong learning which the Administration advocated, training courses were provided by the ED to its staff; and
- if the SBM governance framework was well-developed to become a self-sustaining mechanism, transparent, and allow monitoring by parties outside the schools, it would not be necessary for the ED to issue guidelines or conduct more school inspections whenever problems arose. If such a mechanism was accepted by the public, there would be room for the ED to streamline its organisation.

Primary education - Delivery of effective primary education

34. Noting that the grants given to schools were substantial and that the implementation of SBM would give schools greater autonomy in the deployment of resources, the Committee asked:

- about the percentage of administrative costs in the entire expenditure on primary schools; and
- whether professionals were engaged in the financial management of schools.

35. The **Permanent Secretary for Education and Manpower** said that:

- as the annual grants to a standard school were substantial, the Administration put stress on strengthening the administrative management of schools. At present, the Administration provided schools with a number of administrative staff such as clerical staff. As the expenses of schools, e.g. electricity charges, were more or less fixed, the work of the administrative staff in this respect was similar to that of a cashier;
- following the implementation of SBM which gave schools more flexibility in the use of government grants, schools would have the power to decide how to utilize the grants in different areas of their activities. The Administration hoped that more professionals, such as accountants and lawyers, would join the SMCs. Nevertheless, the Administration did not consider it necessary for every school to be provided with an accountant as the accounts of a school relate mainly to regular expenses; and
- to assist schools in their financial management, the Hong Kong Society of Accountants had been providing them with voluntary accounting service. The Administration also held seminars to assist schools in drawing up their budgets and in financial management. Administrative management, including financial management, was also one of the six areas covered in the programme for continuing the professional development of principals.

36. The **Director of Education** supplemented that many parties were providing voluntary service to schools. For example, the Accountant Ambassador Programme was in its third year of operation. Under the Programme, over 100 aided schools were each provided with an accountant who gave advice to principals on financial management.

Primary education - Delivery of effective primary education

37. In her letter of 13 December 2002 in *Appendix 68*, the **Permanent Secretary for Education and Manpower** informed the Committee that the percentage of administrative costs in the entire expenditure on primary schools was 14%, based on the actual expenditure on primary education for the financial year of 2001-02 under Head 40-Education Department. The breakdown was as follows:

	Government Primary Schools	Aided Primary Schools
Professional related administrative duties by school head/senior teachers	6.6%	7.3%
Non-teaching staff and/or Administration Grant/Revised Administration Grant	7.4%	6.7%

38. The Committee was concerned that as SMCs comprised non-professionals, such as parents and alumni, who rendered their service on a voluntary basis, how they were equipped to do the work under SBM.

39. **Mr Andrew POON Chung-shing, Assistant Director of Education (Chief Inspector of Schools)**, responded that:

- the ED provided school managers with relevant training courses and experience-sharing sessions. Practical examples of school operation were given in the training courses. Financial management, human resource management and resource management were also covered in the courses; and
- every school was provided with the ED's School Administration Guide which sets out guidelines and examples on relevant matters. If schools were interested to know more about financial and human resource management, the ED could provide more information in this respect in the Guide.

40. In response to the Committee's enquiry about access to the Guide, the **Assistant Director of Education (Chief Inspector of Schools)** pointed out that the Guide had been uploaded onto the ED's website. The ED would also make more hard copies of the Guide for use by relevant parties such as school managers and auditors.

Primary education - Delivery of effective primary education

41. Conclusions and recommendations The Committee:

Achievement of primary-education objectives

- expresses concern that:
 - (a) less than half of the public-sector primary-school parents, teachers and principals considered that schools had fully/largely achieved the primary-education objectives of encouraging students to take the initiative to learn and develop the ability to think and create, and of enabling students to develop their potential in aesthetics;
 - (b) some public-sector primary schools did not provide their students with sufficient extra-curricular activities, such as those organised by school-based youth clubs, inter-school sports events and inter-school music and cultural events; and
 - (c) many public-sector primary schools had not adopted the activity approach for teaching which would help promote active and self-initiated learning;
- acknowledges that the Education and Manpower Bureau (EMB) has commissioned a tertiary institution to conduct a survey of students' physical fitness and participation in sports activities for the 2002-03 school year;
- urges the Secretary for Education and Manpower to:
 - (a) take action to identify those schools which do not provide their students with sufficient extra-curricular activities and provide assistance to these schools to help them participate more in such activities;
 - (b) take action to ascertain the extent of implementation of the recommendation of the Education Commission on more extensive adoption of the activity approach in individual schools and provide assistance to schools which are slow in adopting the activity approach;
 - (c) consider issuing good-practice guides to secondary schools to encourage them, when admitting Secondary One students, to take into account students' potential in ethics, intellect, physique, social skills and aesthetics, in addition to academic performance;

Primary education - Delivery of effective primary education

- (d) further encourage schools to make use of the Leisure and Cultural Services Department's venues to organise sports events;
- (e) develop appropriate performance indicators for schools to assess and report their performance in relation to the objectives of primary education; and
- (f) require schools to disclose, in their annual reports/school profiles, their performance in relation to the performance indicators of the Education Department (ED) on the achievement of primary-education objectives;

Primary-school students' attainment in three core subjects

- expresses concern that:
 - (a) some primary-school students in need of intensive remedial teaching had not been enrolled in the remedial classes provided under the Intensive Remedial Teaching Programme (IRTP) or the Resource Teaching Centre (RTC) programme;
 - (b) the discharge rates of the IRTP were low, compared to those of the RTC programme;
 - (c) some teachers teaching IRTP classes had not received training in special education; and
 - (d) there were wide variations in students' average academic performance in the three core subjects of Chinese, English and mathematics among different schools;
- acknowledges that the EMB:
 - (a) has planned to provide additional IRTP and RTC classes to students who are in need of remedial teaching;
 - (b) is working on a funding model for the delivery of support service for students with diverse learning needs;
 - (c) is implementing the Basic Competency Assessments in Chinese, English and mathematics in primary schools in order to provide support for schools in need of assistance, and to monitor the effectiveness of education policies; and

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- (d) has taken various actions to help students nurture a reading habit;
- urges the Secretary for Education and Manpower to:
 - (a) provide sufficient places to meet the needs of all students who are in need of intensive remedial teaching in order to achieve the Education Commission's goal that the education system should not give up on any single student;
 - (b) provide appropriate training to teachers who are required to teach IRTP or RTC classes; and
 - (c) conduct a review on the variations in students' performance in the three core subjects in different schools and, in particular, ascertain the reasons for students' relatively low level of academic achievement in some schools;

Stakeholders' roles in delivery of effective primary education

- expresses concern that:
 - (a) the ED had adopted the "last in, first out" (LIFO) arrangement to identify teachers for laying-off arising out of the reduction of classes, which was at variance with good human resource management practices;
 - (b) the performance of some schools was unsatisfactory in curriculum planning and organisation, curriculum management and teaching strategies and teaching skills;
 - (c) 12% of primary-school teachers did not attend education seminars and 44% did not attend training courses for teachers to keep themselves abreast of the latest developments in teaching technique and methodologies;
 - (d) some schools did not comply with the ED's guidelines on allocation of lesson time among the eight key learning areas;
 - (e) some schools did not comply with the ED's guidelines on the suggested time for written homework for students, resulting in their students spending excessive amount of time on homework; and
 - (f) some schools had not set up parent-teacher associations (PTAs);

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- acknowledges that the Secretary for Education and Manpower has undertaken to expeditiously conduct a review of the LIFO arrangement for laying off teachers;
- urges the Secretary for Education and Manpower to:
 - (a) incorporate the following into any revised arrangement for laying off teachers:
 - (i) the need to take into account teachers' performance; and
 - (ii) a proper appeal mechanism; and
 - (b) consult the Legislative Council and relevant parties in the review;
- acknowledges that the EMB:
 - (a) has required all serving principals to attend 50 hours' continuous professional development per year;
 - (b) has requested schools to draw up policies for staff development in consultation with staff; and
 - (c) has organised annual campaigns to encourage parents to learn together with their children;
- urges the Secretary for Education and Manpower to:
 - (a) where appropriate, require schools to set out, in their strategic plans, targets and actions for improvements in leadership in curriculum development, teacher-student interaction techniques, development of students' skills, attitudes and creativity, involvement of students in active discussions to inspire their higher-order thinking, development of students' potential, adoption of different teaching strategies and learning activities, and development and design of curriculum under the concept of all-round education;
 - (b) encourage schools to arrange more professional exchanges among their teaching staff;
 - (c) ensure that teachers attend a minimum number of hours of professional training each year;

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- (d) require schools to disclose in their annual reports/school profiles the frequency of their teachers' participation in seminars, training courses, and professional exchanges;
- (e) ensure that schools follow as far as possible the ED's guidelines on the allocation of lesson time among the eight key learning areas, the use of computers in schools as a learning tool, and the amount of time spent on written homework;
- (f) ask schools to disclose in their annual reports/school profiles schools' allocation of lesson time among the eight key learning areas, schools' homework policy, and the average time their students spend on homework;
- (g) organise promotion campaigns to explain to parents the importance of all-round development of their children especially in early childhood education and the need to reduce their homework;
- (h) ask the 87 primary schools which have not set up a PTA to set up one;
- (i) invite principals and parents to share the experience of parents' participation in school activities with other schools; and
- (j) organise promotion campaigns to convey to parents the importance of participation in their children's school activities;

Monitoring of delivery of effective primary education

- expresses dismay that:
 - (a) 13 years after the recommendations of the EMB on the school-based management (SBM) initiatives in 1989, the initiatives have not been satisfactorily implemented;
 - (b) many schools had not complied with the ED's guidelines on preparation of written constitutions for school management committees (SMCs), teachers, parents and alumni's participation in SMCs and staff appraisal and staff development;
 - (c) 13% of the schools inspected were rated as performing unsatisfactorily on "evaluation tools and procedures", only 27% of the schools inspected had actively involved their staff in conducting evaluation, and 13% of the schools were rated as having unsatisfactory performance on "reporting and action";

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- (d) in some schools, the school managers served as school managers of a large number of schools at the same time. This casts doubts on whether they could perform their duties properly;
- (e) a significant percentage (46%) of primary schools only held SMC meetings once or twice a year. It is unlikely that their school managers could effectively participate in the affairs of the schools;
- (f) some schools had not conducted performance appraisals of their principals and teachers; and
- (g) some schools had not conducted appraisal interviews and established formal procedures for handling appraisees' appeals;
- acknowledges that the Secretary for Education and Manpower:
 - (a) has submitted the Education (Amendment) Bill 2002 to the Legislative Council in December 2002 which aims to introduce the SBM governance framework to all aided schools; and
 - (b) has undertaken to introduce self-assessment arrangement for schools in respect of compliance with the ED's requirements on the SMC membership and upload the self-assessment reports onto the EMB's Website in order to encourage positive competition and provide additional information to parents and students;
- urges the Secretary for Education and Manpower to:
 - (a) identify and provide appropriate guidance to those schools which have not yet complied with the ED's requirements relating to the SBM on annual school plans, annual reports and school profiles, written constitutions for SMCs, the membership of SMCs, and the staff appraisal system;
 - (b) require schools to prepare and distribute to parents their annual school plans, annual reports and school profiles (in summary form);
 - (c) provide assistance to schools to help them set up websites for the dissemination of school information;
 - (d) require schools to upload their annual school plans, annual reports and school profiles onto their websites;

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- (e) consider setting guidelines on the minimum number of meetings to be held by SMCs in a school year;
- (f) ask schools to incorporate in the staff appraisal system the relevant procedures laid down in the ED's School Administration Guide, such as the procedures for conducting appraisal interviews and appeals;
- (g) ensure that SMCs conduct formal appraisals of the performance of school principals;
- (h) issue guidelines to schools for developing appropriate attributes for assessing the performance of teachers; and
- (i) ensure that adequate resources, administrative support and training are provided for schools to implement the ED's requirements on staff management, self evaluation and curriculum, and the requirements under the SBM initiatives; and

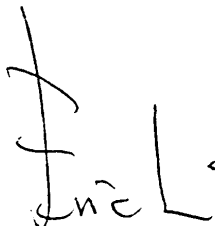
Follow-up actions

- wishes to be kept informed of:
 - (a) the results of the surveys of students' physical fitness and participation in sports activities;
 - (b) the progress of the provision of IRTP and RTC classes to meet the needs of all students requiring the service;
 - (c) the progress of the new funding model for the delivery of support service for students with diverse learning needs;
 - (d) the progress in implementing the Basic Competency Assessments;
 - (e) the progress in the provision of appropriate training to teachers of IRTP or RTC classes;
 - (f) the progress of the review of the LIFO arrangement, including consultation with relevant parties;
 - (g) the progress of principals' attendance in continuous professional development;

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- (h) the progress in drawing up staff development policies in schools;
- (i) the progress in launching annual campaigns to encourage parents to learn with their children; and
- (j) the progress in introducing self-assessment arrangements for schools.

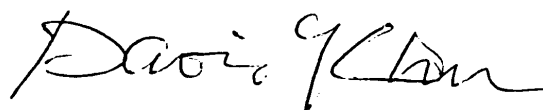
**SIGNATURES OF THE CHAIRMAN, DEPUTY CHAIRMAN AND
MEMBERS OF THE COMMITTEE**



Eric LI Ka-cheung
(Chairman)



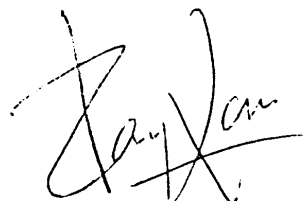
Emily LAU Wai-hing
(Deputy Chairman)



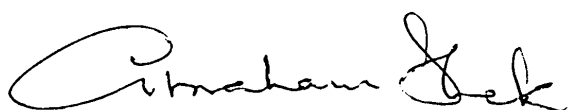
David CHU Yu-lin



SIN Chung-kai



LAU Kong-wah



Abraham SHEK Lai-him



Tommy CHEUNG Yu-yan

5 February 2003

**CHAPTERS IN THE DIRECTOR OF AUDIT'S REPORT NOS. 38 AND 39
DEALT WITH IN THE PUBLIC ACCOUNTS COMMITTEE'S REPORT**

**Director of
Audit's Report
No. 38**

**P.A.C. Report
No. 39**

<u>Chapter</u>	<u>Subject</u>	<u>Chapter</u>
5	Residential services for the elderly	1

**Director of
Audit's Report
No. 39**

Chapter

2	The Customs and Excise Department's efforts to protect government revenue from dutiable commodities	2
5	Special Finance Scheme for small and medium enterprises	3
8	Small house grants in the New Territories	4
9	Primary education - Planning and provision of primary school places	5
10	Primary education - The administration of primary schools	6
11	Primary education - Delivery of effective primary education	7

**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.

香港司法機構
司法機構政務長用箋



1
JUDICIARY ADMINISTRATOR
JUDICIARY
HONG KONG

Tel. 電話 : 2825 4588

Fax. 圖文傳真 : 2530 2648

Our ref. : SC(CR) 15/1/33 III
Your ref. : CB(3)/PAC/R34

7 January 2003

With Chinese Translation

Clerk to Public Accounts Committee
(Attn.: Miss Sandy Chu)
Legislative Council
Legislative Council Building
8 Jackson Road
Central, Hong Kong
(Fax : 2537 1204)

Dear Miss Chu,

**The Public Accounts Committee's consideration of
the Director of Audit's Report No. 34**

The Administration of the Judiciary

Thank you for your letter of 17 December 2002.

In 2002, the Labour Tribunal received an all-time high of 12 326 cases, representing an increase of 18% over 2001 (10 450 cases), or 6% over the previous peak in 1999 (11 594 cases). To keep up with the increased demand, the Labour Tribunal has introduced the following measures :

- (a) replaced one night court by a day court in October 2001, thereby increasing the capacity of the courts to deal with trials; and
- (b) increased the output of the Tribunal Officers in case preparation, thereby enabling more cases to be ready for trial.

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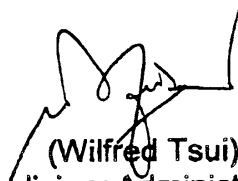
With the implementation of the above measures, the average waiting times at the Labour Tribunal have been maintained within targets as follows :

	<u>Waiting Time (days)</u>			
	<u>Targets</u>	<u>2001</u>	<u>2002</u>	<u>2003 as at 6.1.03</u>
From appointment to filing of a case	30	14	19	9
From filing of a case to hearing	30	24	25	20

As regards cases withdrawn by the claimants, the information is as follows :

	<u>2001</u>	<u>2002</u>
	<u>(As a percentage of all cases filed in a year)</u>	
Before filing	9.6%	8.2%
Between filing and first hearing	6.7%	6.5%

Yours sincerely,


(Wilfred Tsui)
Judiciary Administrator

c.c. Director of Audit
Director of Administration

香港特別行政區政府

The Government of the Hong Kong Special Administrative Region

政府總部
環境運輸及工務局
環境科
香港花園道三號
萬國寶通銀行大廈十樓



Environment, Transport and
Works Bureau
Government Secretariat
Environment Branch
10/F., Citibank Tower,
3 Garden Road, Hong Kong

本局檔號 Our Ref. ETWB(E) 55/03/111

來函檔號 Your Ref. CB(3)/PAC/R28 & CB(3)/PAC/CS(36-37)

Tel: 2136 3351

Fax: 2136 3304

9 January 2003

Mr Colin Chui
Clerk, Public Accounts Committee
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Mr Chui,

**The Public Accounts Committee's consideration of
The Director of Audit's Report No. 28**

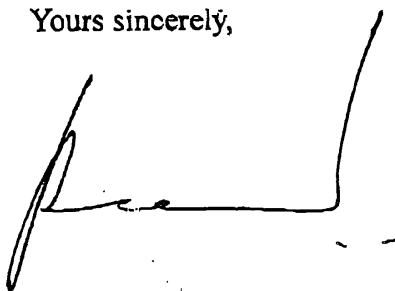
Beneficial use of construction waste for reclamation

Thank you for your letter of 20 December.

Landfill charging is an essential component of our waste management strategy as it provides an economic incentive for waste producers to reduce waste and carry out sorting to facilitate reuse/recycling, thereby helping to slow down the depletion of the limited landfill capacity. We plan to adopt a phased approach and will introduce the landfill charge for the disposal of construction waste in the first phase. In May and June 2002, we consulted the Council's Panel on Environmental Affairs on the framework of the charging scheme. The paper setting out our proposal is LC Paper No. CB(1)1811/01-02(07).

We are now working on the associated arrangements and the detailed legislative proposal to effect the charging scheme. We will brief the Panel on the details in the coming months once they have been finalized. We aim to introduce the relevant Bill to the Council in mid-2003 and implement the charging scheme in 2004.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized 'A' followed by a horizontal line and a vertical stroke at the end.

(Ms Annie Choi)

for Secretary for the Environment, Transport and Works

c.c. Director of Audit

漁農自然護理署
九龍長沙灣道 303 號
長沙灣政府合署五樓



Please address all replies to
Director of
Agriculture, Fisheries and Conservation
署首長交「漁農自然護理署收」

AGRICULTURE, FISHERIES AND
CONSERVATION DEPARTMENT
5/F, Cheung Sha Wan Government Offices
303 Cheung Sha Wan Road
Kowloon, Hong Kong

本署檔號 Our Ref.: AF ADM 16/10 Pt. 2
來函檔號 Your Ref.: CB(3)/PAC/R27
電話 Tel. No.: 2150 6603
電郵地址 E-mail Address: mailbox@afcd.gov.hk
圖文傳真 Faxline No: 2311 3731

By Fax : 2537 1204

23 December 2002

Clerk
Public Accounts Committee
Legislative Council Building
8 Jackson Road
Central
Hong Kong
(Attn : Miss Sandy CHU)

Dear Miss CHU,

**The Public Accounts Committee's consideration of
The Director of Audit's Report No. 27**

Re : The provision of government wholesale food markets

Thank you for your letter of 17 December 2002. Our input is as below :

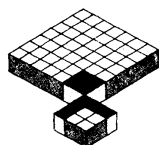
"Having regard to the objection of the wholesalers towards operating in a multi-storey market complex involving five trades and the need to detach relocation of poultry market from the project on public health ground arising from avian flu, the Administration has decided that the original five-trade proposal for the Phase II project will not be pursued. We are reviewing other options of developing the Phase II site for wholesale market purpose taking into account the current economic environment and land demand, the traders' concerns, as well as the need for reprovisioning of individual wholesale markets. We will keep the LegCo Panel on Food Safety and Environmental Hygiene informed of our plan."

Yours sincerely,

(S P LAM)

for Director of Agriculture, Fisheries and Conservation

c.c. Director of Audit



**Government
Property Agency**
政府產業署

31 Fl., Revenue Tower, 5 Gloucester Road, Hong Kong.
香港灣仔告士打道五號稅務大樓三十一樓

Fax: 2583 9758 Tel: 2594 7601

本署檔號 Our Ref.: (25) in GPA/AS/AUDIT27/178/1C Pt. 4

來函檔號 Your Ref.: CB(3)/PAC/R27 & CB(3)/PAC/CS(36-37)

9 January 2003

BY FAX 2537 1204

Clerk of Public Accounts Committee
Legislative Council Building
8 Jackson Road
Central
Hong Kong

(Attn : Mr Colin CHUI)

Dear Mr Chui

**The Public Accounts Committee's consideration of
the Director of Audit's Report No. 27**

Departmental quarters for the disciplined services

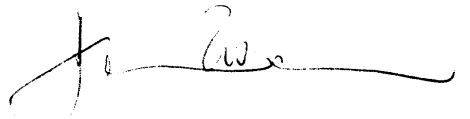
Thank you for your letter of 20 December 2002. You asked whether the de-leasing of leased departmental quarters (DQs) of the Police will result in the return of DQs to the Government Property Agency (GPA) and, if so, how the returned DQs will be disposed of. You also asked the same question in relation to the proposed revision to the Accommodation Regulations (ARs). These will be dealt with separately below.

In respect of your first enquiry, the Committee may wish to note that the demand and supply position of officer grade DQs of the Police is very different from that at the time of the Audit Report. As at 1 November 2002, officer grade DQs of the Police stood at 586 whilst the demand was 693, producing a shortfall of 107. Against this background, the remaining 15 leased quarters out of the original 95 would only be de-leased when the provision of owned replacements so permits. Also de-leasing would not result in the return of DQs to the Agency.

In respect of your second enquiry relating to the revision of ARs, the Committee may wish to note that in consultation with concerned departments and bureaux, proposals have been formulated to separately define quarters provided for specific policy purposes and those provided to meet operational requirements and to tighten the definition, designation, allocation and monitoring of the latter.

Comments from bureaux/departments on the proposed revisions have been addressed and the Administration is working on promulgating the revised ARs as soon as possible. However, the revision of ARs in this respect will not result in quarters being found surplus to requirements. Overall the position as regards DQs in the disciplined services departments as at 1 November 2002 was that the supply of DQs stood at 21 908, whilst the demand was 25 935. There was an overall shortfall of over 4 000 units.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Maria Kwan', with a long horizontal flourish extending to the right.

(Ms Maria Kwan)
Government Property Administrator

cc Secretary for Financial Services and the Treasury
(Attn : Mr Victor Ng)

Secretary for Security
(Attn : Mr D Hooi)


ELECTRICAL & MECHANICAL SERVICES DEPARTMENT 機電工程署

98 CAROLINE HILL ROAD, HONG KONG. 香港加路連山道九十八號

Your ref. : CB(3)/PAC/R33
 REF. 檔號 : EM(CR)/03/01/03 Pt. 4
 TEL. 電話 : (852) 2808 3601
 FAX. 圖文傳真 : (852) 2890 7493

9 January 2003

Clerk to Public Accounts Committee,
 Public Accounts Committee,
 Legislative Council,
 Legislative Council Building,
 8 Jackson Road,
 Central,
 Hong Kong.

(Attn.: Mr. Colin Chui)

Dear Mr. CHUI,

**The Public Accounts Committee's Consideration of
 the Director of Audit's Report No. 33**

The use of energy-efficient air-conditioning systems in Hong Kong

Thank you for your letter dated 21 December 2002.

I would like to advise that the consultancy study for the implementation of a District Cooling Scheme for South East Kowloon Development has just been substantially completed and the findings were presented to the Panel on Environmental Affairs on 20 December 2002. The consultancy study in respect of Wanchai and Causeway Bay districts is still in progress. The Tamar Development Project, however, lies outside the study areas of these two consultancy studies.

I have also discussed with the Director of Architectural Services, who is responsible for implementing the Tamar Development project, about the design of the air-conditioning system for the Project. I have been informed that air-conditioning to the Central Government Complex, Legislative Council Complex, and the ancillary building blocks will be served by chilled water generated from a centralised chiller plant using seawater cooling and distributed through a pipe network. The air-conditioning system design, technically, resembles that of a district cooling system.

Yours sincerely,

(Roger S. H. LAI)
 Director of Electrical & Mechanical Services

c.c.	Secretary for Environment, Transport and Works	(Attn.: Mr. Raistlin LAU)
	Director of Audit	
	Director of Architectural Services	(Attn.: Mr. R. S. CHIN)



Employees Retraining Board
僱員再培訓局

30 December 2002

By Fax & Post

Ms Miranda HON
Clerk
Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Ms Hon,

**The Public Accounts Committee's consideration of
the Director of Audit's Report No. 35**

Employees Retraining Scheme

Thank you for your letter dated 18 December 2002 to Mr Kwong on the captioned subject. He is on leave and I am replying on his behalf.

The Employees Retraining Board (ERB) has conducted job retention surveys since April 2001. In each survey, the sample of graduate retrainees taken is those who have completed a full-time day course during the half month period 9 months before the survey and subsequently been placed into employment. A time lapse of 9 months is allowed because the post-course placement period is 3 months. Also, the number of graduates in half a month (and not a full month or longer) is considered representative enough, bearing in mind the cost of the survey. As surveys are conducted four times a year, the total number of full-time graduates covered is those of two months, or one-sixth of the total.





Employees Retraining Board
僱員再培訓局

As of December 2002, seven job retention surveys have been conducted so far. The number of graduate retrainees successfully enumerated, and the number (and percentage) of respondents who had stayed in employment six months after placement for each survey are shown in the **ANNEX**.

It will be seen that in all the seven surveys conducted so far, ERB has achieved the performance indicator of 60% retention rate for six months after placement of retrainees. Some percentages even stood over 70%.

Yours sincerely,

(P Y CHOY)

Acting Executive Director
Employees Retraining Board

c.c. Secretary for Education and Manpower (w/ encl.)
Director of Audit (w/ encl.)



ANNEX

Time of Survey	Survey Sample	No. of Retrainees *	No. of Placed	Placement Rate	No. of Respondents	Response Rate	Respondents who had stayed in employment 6 months after placement	
		(a)	(b)	(c) = (b) ÷ (a)	(d)	(e) = (d) ÷ (b)	Number	Percentage
May 2001	Retrainees who completed a full-time day course between 16 and 31 July 2000	1,477	1,162	78.7%	971	83.6%	726	74.8%
Sept 2001	Retrainees who completed a full-time day course between 1 and 15 Nov 2000	1,533	1,175	76.6%	1,008	85.8%	695	68.9%
Jan 2002	Retrainees who completed a full-time day course between 1 and 15 Mar 2001	1,583	1,291	81.6%	1,149	89.0%	846	73.6%
Apr 2002	Retrainees who completed a full-time day course between 16 and 30 June 2001	1,578	1,233	78.1%	1,033	83.8%	719	69.6%
July 2002	Retrainees who completed a full-time day course between 1 and 15 Sept 2001	1,655	1,279	77.3%	1,034	80.8%	692	66.9%
Oct 2002	Retrainees who completed a full-time day course between 16 and 31 Dec 2001	1,811	1,400	77.3%	1,072	76.6%	735	68.6%
Dec 2002	Retrainees who completed a full-time day course between 1 and 15 Feb 2002	1,744	1,379	79.1%	1,081	78.4%	765	70.8%

*NOTE: excluding retrainees who completed tailor-made courses, programmes for special projects, self-employment courses, regular courses or programme for disabled and industrial accident victims.

The Government of the Hong Kong Special Administrative Region

BY FAX : 2537 1204

政府總部
環境運輸及工務局
運輸及工務科
香港花園道美利大廈



Environment, Transport
and Works Bureau
Government Secretariat
Transport and Works Branch
Murray Building, Garden Road,
Hong Kong

() in ETWB(CR)(W)172/47(2001)

本局檔號 Our Ref.

CB(3)/PAC/R37&CB(3)/PAC/CS(36&37)

來函檔號 Your Ref.

Tel : 2848 2704

Fax : 2869 0167

3 January 2003

Clerk to the
Public Accounts Committee
Legislative Council Building
8 Jackson Road
Central
Hong Kong

(Attn: Ms Miranda HON)

Dear Ms Hon,

**The Public Accounts Committee's consideration of
the Director of Audit's Report No. 37**

Construction of two bridges

I refer to your letter of 18 December 2002 to the Secretary for Financial Services and the Treasury. As discussed between the Financial Services and the Treasury Bureau and your goodself, this Bureau has undertaken to respond to you direct on the subject.

Regarding question (a) in your letter, a circulation letter with proposed amendments to the standard forms of contract and consultancy agreement used by the Government was issued on 7 May 2002 to trade associations of the construction industry (copy attached at Annex I). The proposed amendments involve modifications to the Government's Mediation Rules and the Arbitration Rules promulgated by the Hong Kong International Arbitration Centre. By introducing those amendments, the Government would be able to disclose terms of dispute settlement to the Legislative Council on condition that the contractor/consultant may

request the Government to disclose commercially sensitive information on a confidential basis.

On your question (b), the contractor associations vigorously objected to the proposal. The construction industry considers that the proposal to disclose terms of arbitration awards and mediation settlements with commercially sensitive information is contrary to the fundamental principle that the two processes are conducted privately and should remain private and confidential. The industry insists that disclosure can take place only with the consent of the contracting parties.

The consultant association categorically objects to the proposal on similar grounds. The association raises the concern that the proposal would have a serious impact on the ability of consulting firms to obtain professional indemnity insurance. They are also concerned about the possibility of sensitive information being published and abused jeopardizing the business status of the concerned consulting firms. They consider that the proposal would also lead to higher construction cost.

The Hong Kong International Arbitration Centre has also written to the Government on its own accord. The Centre is strongly of the view that the proposal would undermine the fundamentals of the two dispute resolution mechanisms, and destroy the confidence the construction industry has had in adopting the process in resolving dispute with the Government.

On your question (c), the second round of consultation originally scheduled for October this year was deferred due to delay in replies from trade associations on the initial proposal. A revised proposal was issued on 2 December 2002 (copy attached at Annex II). A requirement for the Government to obtain consent from the other contracting party has been included if disclosure is made within six months of settlement, beyond which the contractor/consultant may still request for sensitive information to be disclosed on a confidential basis.

As the proposed amendments change the existing practice which has been in use for more than 20 years, we consider it prudent to allow sufficient time for the industry to fully express their views and concern. We have not yet received responses to the second round of consultation from the trade associations except the contractor association which has already indicated their objection to the revised proposal.

Yours sincerely,



(Wai Chi Sing)
for Secretary for Environment,
Transport and works

c.c. FSTB (Attn.: Ms Janice Tse)

**Note by Clerk, PAC: Annexes I and II not attached.*



政府總部
民政事務局

香港灣仔
告士打道五號
稅務大樓
四十一樓

GOVERNMENT SECRETARIAT

HOME AFFAIRS BUREAU
41/F, REVENUE TOWER
5 GLOUCESTER ROAD
WAN CHAI
HONG KONG

OUR REF : L/M to SF(23) in HAB/CS/CR 6/8/37 Pt.4

YOUR REF :

TEL. No. : 2594 6619

FAXLINE : 2824 3348

By Fax

4 January 2003

Miss Sandy CHU
Public Accounts Committee
Council Business Division 3
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central, Hong Kong
(Fax No.: 2537 1204)

Dear Miss CHU,

**The Public Accounts Committee's Consideration of
the Director of Audit's Report No. 36
Review of the Hong Kong Sports Development Board**

Thank you for your letter of 17 December 2002.

We have reviewed the remuneration packages of SDB staff in consultation with the Financial Services and Treasury Bureau and Civil Service Bureau. However, the timeframe for the conclusion of our review will depend on the outcome of a related review on remuneration package of public organizations being conducted by the Director of Administration. We will inform the PAC of the findings/recommendations of our review as soon as it is finalized, hopefully in the first quarter of the year.

Yours sincerely,


(Ms Loly CHIU)

for Secretary for Home Affairs

c.c. Director of Audit



優質教育基金秘書處

QUALITY EDUCATION FUND SECRETARIAT

APPENDIX 11

本會檔號 Our Ref.: QED/ADM/CR 10/5
來函檔號 Your Ref.:

電話 Telephone: 2921 8940
傳真 Faxline: 2186 8245

9 January 2003

Ms Miranda Hon
Clerk, Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Ms Hon,

**The Public Accounts Committee's consideration of
the Director of Audits Report No. 37**

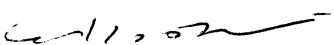
Administration of the Quality Education Fund

Thank you for your letter dated 18 December 2002.

You may wish to note that for the 6th call for applications which is underway, the Quality Education Fund (QEF) has adopted a number of measures based on the recommendations of the reviews conducted on its operation in 2002. Amongst others is the setting of a maximum grant of \$0.5 million each for approved projects of general nature, and \$5 million each for projects of exceptional merits.

Given the above policy, it is not envisaged that there will be grants exceeding \$10 million per project in this call for applications. However, should there be any change in policy whereby QEF grants exceed \$10 million per project in the future, we will be pleased to draw them to the attention of the Legislative Council Panel on Education.

Yours sincerely,


(Ms Mimi Lee)

for Secretary for Education and Manpower

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

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 Hon E K YEOH, JP	Secretary for Health, Welfare and Food (formerly Secretary for Health and Welfare)
Mr Patrick NIP	Deputy Secretary for Health, Welfare and Food (formerly Deputy Secretary for Health and Welfare)
Prof Hon Arthur LI Kwok-cheung, GBS, JP	Secretary for Education and Manpower
Mrs Fanny LAW, JP	Permanent Secretary for Education and Manpower
Mr LEE Hing-fai, JP	Director of Education
Mr Patrick LI	Assistant Director of Education (Infrastructure)
Mr LEE Kwok-sung	Assistant Director of Education (Planning & Research)
Hon Henry TANG Ying-yen, GBS, JP	Secretary for Commerce, Industry and Technology

Mr Raymond YOUNG, JP	Deputy Secretary for Commerce, Industry and Technology (Commerce and Industry)
Miss Shirley YUEN	Administrative Assistant to Secretary for Commerce, Industry and Technology
Mr Kevin HO Chi-ming, JP	Director-General of Trade and Industry
Mr Eugene FUNG Kin-yip	Assistant Director-General of Trade and Industry
Mr SHUM Man-to, JP	Director of Accounting Services
Mr TSANG Chi-hung, JP	Assistant Director of Accounting Services
Hon Frederick MA Si-hang	Secretary for Financial Services and the Treasury
Mr Alvin YUEN	Chief Treasury Accountant (Treasury), Financial Services and the Treasury Bureau
Mr CHENG Man-yiu, JP	Deputy Director of Education
Mr Andrew POON Chung-shing	Assistant Director of Education (Chief Inspector of Schools)
Mr Herman CHO	Principal Assistant Secretary for Home Affairs (1)
Mrs Loran MAO	Assistant Director (Leisure Services) ¹ , Leisure and Cultural Services Department
Mr Raymond WONG Hung-chiu, JP	Commissioner of Customs and Excise
Mr CHOW Kwong	Assistant Commissioner (Administration & Excise), Hong Kong Customs and Excise Department
Mr CHOW Oi-tung	Assistant Commissioner (Intelligence & Investigation), Hong Kong Customs and Excise Department
Mr LAM Ming-mon	Senior Staff Officer (Dutiable Commodities Administration), Hong Kong Customs and Excise Department

Miss Erica NG	Principal Assistant Secretary for Financial Services and the Treasury (Treasury)
Mr LAI Tung-kwok, IDSM	Director of Immigration
Mr Raymond WONG Wai-man, JP	Assistant Director of Immigration (Information Systems)
Mr Patrick LAU Lai-chiu, JP	Director of Lands
Mr John Corrigan, JP	Deputy Director/Specialist, Lands Department
Hon Michael SUEN Ming-yeung, GBS, JP	Secretary for Housing, Planning and Lands
Mr Gary YEUNG	Principal Assistant Secretary for Housing, Planning and Lands (Planning and Lands) 1
Mr LAM Kwok-cheong, JP	Ex-officio Executive Councillor, Heung Yee Kuk

**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, 2 December 2002**

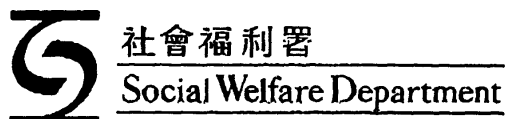
Good morning, ladies and gentlemen. Welcome to the Public Accounts Committee's first public hearing relating to Report No. 39 of the Director of Audit on the results of value for money audits, which we was tabled in the Legislative Council on 20 November 2002.

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 learned from past 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. 39, the Committee has decided, in respect of six 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 this morning's hearing, also set aside the mornings of 4, 5, 6 and 9 December for the public hearings. After we have studied the issues and taken the necessary evidence, we will produce our conclusions and recommendations. 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.

I now declare the Committee to be in formal session.



Our Ref. : SWD 17/150/780/49
Your Ref. : CB(3)/PAC/R38
Tel No. : 2892 5151
Fax No. : 2838 0125

Clerk to Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong.
(Attn : Miss Sandy Chu)

23 May 2002

Dear Miss Chu,

**The Director of Audit's Report on the
Results of value for money audits (Report No. 38)**

Chapter 5: Residential services for the elderly

Thank you for your letter of 15 May 2002. I am writing to provide additional information to facilitate consideration by the Public Accounts Committee (PAC). For easy reference, my response to the points raised seriatim is as follow.

(a) Supply of purpose-built RCHE premises

As we have pointed out in the Administration's response to the Audit report, one of the fundamental disparities between subvented homes run by NGOs and private homes lies in the availability of purpose-built premises for the former. We have therefore embarked on a major programme to secure purpose-built RCHE premises from various sources. Through competitive bidding, these purpose-built government premises will be available to NGOs as well as private homes for operating a mix of subsidized and non-subsidized services. As at April 2002, we have successfully secured such premises for a total of 6 726 places over the next ten years. A summary breakdown by source of supply is as follows –



Source of Supply	No. of RCHE places
Public Housing Estate developments	3,555
NGO sites	771
Government GIC sites	764
Urban Renewal Authority/MTCR/KCRC developments	646
Private developments through land sale conditions	990
	6,726

A detailed list of these planned RCHE premises is at the Annex.

Noting that public housing estate developments remain the main source of supply, the Director of Social Welfare has made an appeal to the Housing Authority to help supply such premises within public housing estates developments at suitable locations. A new funding arrangement to facilitate the provision of such RCHE premises with the Social Welfare Department (SWD) reimbursing the Housing Authority the construction cost of those premises through the Lotteries Fund has also been put in place.

To further boost the supply of purpose-built RCHE premises, the Administration has devised a scheme to encourage private developers to incorporate RCHE premises in their developments. Under the proposed scheme, we will exempt eligible purpose-built RCHE premises in new private developments under lease modification, land exchange or private treaty grant from the calculation of gross floor area and assessment of premium of the development. In return, the developer will have to pay the full cost of constructing the RCHE premises with basic provisions such as fire services installation, drainage connection, etc. suitable for operation as a RCHE. These RCHE premises, once built, while remaining the property of the private developers, will have to be used exclusively as RCHEs. We consulted the Legislative Council Panel on Welfare Services on this initiative at its meeting on 11 March 2002. Members of the Planning, Lands and Works Panel were also invited to the meeting. We are finalizing the legislative amendments needed to put the scheme in place. The supply of purpose-built RCHE premises over the next ten years reported above and in the Annex has not yet included any possible supply from this source.

Pending increased supply of purpose-built RCHE premises, we will continue to take various measures to upgrade the quality of private homes. These include upgrading the remaining Bought Place Scheme (BPS) places to Enhanced Bought Place Scheme (EBPS) standards, stipulating higher standards in the renewal of and purchase of additional EBPS places, and expanding training capacity for health workers and care staff working in private homes subject to the availability of resources. Details on these initiatives have been provided in the Administration's response to the Audit report. However, I need to reiterate what I said during the PAC hearing on the need to strike a



balance between imposing further requirements on the operation of private homes with a view to upgrading their standards and the commercial realities faced by these private homes. There is clearly a limit to how much public resources we could mobilize to induce quality improvements in private homes through Government directly purchasing places from these homes to operate as subsidized places.

We believe that consumer choice would also be a powerful tool to raise standards in private homes. As reported earlier, we have commissioned the Hong Kong Association of Gerontology to undertake a two-years' project to develop and establish an accreditation system for RCHEs in Hong Kong to ensure the delivery of quality care and continuous performance improvement through promulgation of the quality process and outcome monitoring of RCHEs. We are happy to make regular progress reports on this project to the LegCo Panel on Welfare Services.

(b) & (c) A uniform level of service for all subsidized C&A homes

Government subsidized C&A services are now provided through the traditional NGO homes operating on Government recurrent subventions, places purchased from private homes under the BPS/EBPS and subsidized places provided in contracted homes arranged through competitive bidding. With the exception of a few homes developed by NGOs with or without Government subventions, the policy intent is to put all future homes under competitive bidding. These contracted homes will be subject to the same set of quality standards, output/outcome indicators and other requirements. In other words, we are confident that all new RCHEs will be provided at a uniform level of service and at a competitive cost achieved through open tendering.

It should be noted that the level of service and the cost of the service are two sides of the same coin. In the case of the traditional subvented NGO homes, given the high personnel cost they carry, it would be extremely difficult to reduce their cost to the level of the contracted homes over a short period. Instead, we have been trying to enhance their productivity through in situ expansion or inviting them to make use of the premises to provide added services. In the case of private homes providing subsidized services, we have narrowed the disparity by increasing the space requirement and staff numbers of EBPS and we intend to phase out all BPS. On the part of staff competency, we have revamped the course for care staff and obtained additional resources for providing more training to care staff in elderly services from both the subvented and private sector. Details of these initiatives are described below --

- (i) We have secured resources of \$11.8 million annually to upgrade a total of 1 200 BPS places to EBPS level places by 2003;
- (ii) we have earmarked \$8 million to provide 2 160 multi-skilled training places for care staff by 2004-05. Of the 400 training places provided in 2001-02, a total of 100 trainees came from the private sector; and



- (iii) we have adopted a new schedule of accommodation for all new homes optimizing the use of premises and narrowing the space standards difference between subvented and private homes.

Apart from the above measures aiming at facilitating and assisting in service upgrading, we have no plans to resort to imposing further requirements through statutory means. To put things in context, it has taken the Administration and the sector as a whole over five years to bring all existing homes up to the licensing standards since the implementation of the Residential Care Homes (Elderly Persons) Ordinance (the Ordinance). This licensing regime has helped ensure that residents in care homes receive services of acceptable standards that are of benefits to them physically, emotionally and socially. The licensing scheme regulates the operation of all care homes in terms of staff requirement, space standard, building and fire safety and the provision of health and care services at acceptable and minimum level. The complete licensing of all private homes in March 2001 was achieved through vigorous efforts on the part of SWD and operators and supported by Lotteries Fund grants to subvented homes for upgrading and a financial assistance scheme for private homes¹. Since completion of licensing, we have been pursuing various measures as mentioned in (a) above to further improve the standard of services. Mindful of the overall business environment, reduced affordability for non-subsidized services as a result of the economic downturn and rising unemployment, we have doubts on the practicability of contemplating legislative amendments to stipulate higher space and manpower standards at this time juncture. The last thing we would like to see is massive closures of private homes as a result of the toughened operating environment and as a result, large numbers of elders being displaced.

(d) Planning target for nursing home places

In line with the concepts of “ageing in place” and “continuum of care” and to ensure flexible and optimal use of resources, we do not see the advantage of pursuing separate planning targets for the provision of nursing home places. The intention is to enable homes to be able to continue to take care of their residents when their physical conditions deteriorate. To achieve this objective, all contracted homes put out for competitive tendering will include such requirements for continuum of care. However, noting that there are now a considerable number of elders of nursing home frailty

¹ The Financial Assistance Scheme (FAS) introduced in 1995 aimed at assisting those private homes already in existence upon the coming into effect of the Ordinance to comply with safety precaution, design and structural requirements as stipulated under the Ordinance. It is not confined to private homes providing subsidized services under the BPS/EBPS schemes. It is therefore not quite relevant to the point raised about providing a uniform level of service for all subsidized places. As a matter of fact, it is doubtful whether the existing premises occupied by private homes could be upgraded to a similar standard of subvented homes without total re-provisioning. For PAC's information, SWD received a total of 233 applications from private homes under the FAS. Total grants of some \$20 million were made to 154 successful applications.



wait-listing for nursing home care, we are planning to provide additional nursing home places in some of the new contracted homes so that these homes may admit elders on the waiting list for nursing home placement immediately to provide them with better care. We will closely monitor the proportions of nursing home places versus C&A places in the new contracted homes to ensure an optimal mix and to reduce waiting times for nursing home admission. Looking ahead, with further development of enhanced home and community care and taking account of elders' preference, we may be able to take care of elders with C&A level of impairment at home and only elders of nursing home frailty would in future require admission into residential care. The entire long term care scene will undergo some significant changes with the benefit of recent developments including the findings and recommendations of the Audit report. It would not be timely to settle on planning targets for services one way or the other without taking reference from those likely changes.

(e) Transfer of infirm care to the social welfare sector

What I said at the public hearing is that because of the shortage of infirm places in hospitals, some transfer of cost in looking after these infirmed elders, though not directly from the Hospital Authority (HA) to SWD, has already taken place in the form of SWD on its own finding extra funding to pay for home operators looking after these elders in the welfare setting in the form of cash-limited infirm supplements. Given overall fiscal stringency, I can foresee major difficulties for SWD to secure further additional resources on its own to take care of infirmed elders in the welfare setting. I have therefore expressed the view that any delineation of respective responsibilities in long term care should be accompanied by the corresponding budget transfers from HA to SWD, otherwise we would be faced with the consequence of the provision of care to other elders currently in the welfare setting being adversely affected, such as lengthened waiting times for nursing home places.

Yours sincerely,

(Mrs Carrie Lam)
Director of Social Welfare

c.c. SHW (Attn: Mr Patrick Nip)

Secured Premises for Operation as RCHE

<u>District</u>	<u>Address</u>	<u>Capacity</u>	<u>Target Operation Date</u>
<u>2002/03</u>			
TAI PO	* SHUEN WAN PHASE III	203	Aug/2002
KOWLOON CITY	HOMANTIN SOUTH ESTATE PHASE 3	148	Nov/2002
TUEN MUN	* TUEN MUN MIU FAT BUDDHIST MONASTERY REDEVELOPMENT	82	Jan/2003
WONG TAI SIN	TSZ CHING ESTATE PHASE 3	147	Mar/2003
SOUTHERN	* HK SOCIETY FOR REHABILITATION MMRC (PHASE 1)	58	Mar/2003
KOWLOON CITY	* LUTHERAN HK SYNOD MARTHA BOSS COMMUNITY CENTRE	100	Mar/2003
Sub-total:		<u>738</u>	
<u>2003/04</u>			
EASTERN	ALDRICH BAY PHE PHASE III	137	Aug/2003
KWUN TONG	SAU MAU PING ESTATE PHASE 15	140	Aug/2003
KWUN TONG	LAM TIN SOUTH PHASE 8 (TAK TIN ESTATE) CC SITE (1/F to 3/F)	100	Dec/2003
KWUN TONG	LAM TIN SOUTH PHASE 8 (TAK TIN ESTATE) CC SITE (4/F to 8/F)	100	Dec/2003
SHAM SHUI PO	CHEUNG SHA WAN ESTATE PHASE 3	105	Dec/2003
SAI KUNG	SHEUNG TAK ESTATE PHASE 9 CC SITE	200	Dec/2003
KWAI TSING	KWAI SHING EAST ESTATE CC SITE	200	Dec/2003
CENTRAL & WESTERN	URA DEVELOPMENT AT QUEEN STREET, SHEUNG WAN	96	Dec/2003
Sub-total:		<u>1078</u>	
<u>2004/05</u>			
KWAI TSING	* ELCSS FUNG YAT SOCIAL SERVICE COMPLEX PHASE III	168	Jun/2004
WONG TAI SIN	TSZ ON ESTATE PHASE 3 CC SITE	200	Jul/2004
EASTERN	ALDRICH BAY PHE PHASE IV CC SITE	150	Aug/2004
TSUEN WAN	LEI MUK SHUE ESTATE PHASE 4 CC SITE	200	Nov/2004
YUEN LONG	TIN SHUI WAI AREA 101 PH 2	125	Nov/2004
KWUN TONG	SHUN LEE CINEMA SITE	178	Feb/2005
Sub-total:		<u>1021</u>	
<u>2005/06</u>			
KWAI TSING	KWAI CHUNG ESTATE PHASE 4	120	Jun/2005
SHAM SHUI PO	* CORNWALL STREET	180	Jun/2005
NORTH	PUBLIC HOUSING AT FANLING AREA 36 PHASE 1	125	Aug/2005
KWAI TSING	SHEK YAM ESTATE PHASE 5	180	Sep/2005
SHAM SHUI PO	UN CHAU STREET ESTATE PHASE 4 CC SITE	150	Nov/2005
Sub-total:		<u>735</u>	
<u>2006/07</u>			
TUEN MUN	TUEN MUN AREA 51 CC SITE	150	Jun/2006
SAI KUNG	TSEUNG KWAN O AREA 15	264	Aug/2006
KWUN TONG	SAU MAU PING CENTRAL CC SITE	200	Aug/2006
SHAM SHUI PO	NKIL 6317 MEI LAI ROAD MEI FOO	100	Aug/2006
KWUN TONG	LAM TIN NORTH PHASE 10 CC SITE	200	Sep/2006
Sub-total:		<u>914</u>	

Secured Premises for Operation as RCHE

<u>District</u>	<u>Address</u>	<u>Capacity</u>	<u>Target Operation Date</u>
<u>2007/08</u>			
YAU TSIM MONG	TAI KOK TSUI WORKERS HOUSING SITE	100	Jul/2007
EASTERN	CH SITE AT J/O LEI KING ROAD AND TAI ON STREET	200	Aug/2007
YAU TSIM MONG	URA DEVELOPMENT AT CHERRY STREET	100	Nov/2007
WONG TAI SIN	REDEVELOPMENT OF TUNG TAU ESTATE PHASE 9	100	Nov/2007
Sub-total:		<u>500</u>	
<u>2008/09</u>			
WAN CHAI	URA DEVELOPMENT AT LEE TUNG STREET/MCGREGOR STREET	100	Apr/2008
KOWLOON CITY	HOMANTIN ESTATE REDEVELOPMENT PHASE 2 (CC Site)	200	May/2008
KWUN TONG	CHA KWO LING KAOLIN MINE HOUSING SITE	200	Feb/2009
CENTRAL & WESTERN	URA DEVELOPMENT AT FIRST STREET/SECOND STREET	100	Mar/2009
Sub-total:		<u>600</u>	
<u>2008/10</u>			
YUEN LONG	KCRC WEST RAIL DEVELOPMENT (LONG PING)	125	Aug/2009
Sub-total:		<u>125</u>	
<u>2010/11</u>			
YUEN LONG	YUEN LONG AREA 15 CDA	150	Aug/2010
TSUEN WAN	KCRC WEST RAIL TSUEN WAN WEST CDA	125	Aug/2010
Sub-total:		<u>275</u>	
<u>2011/12</u>			
NIL		0	—
Sub-total:		<u>0</u>	
<u>Others</u>			
	FOUR LAND SALE SITES	740	—
Sub-total:		<u>740</u>	
Total:		<u>6726</u>	

* These are RCHE premises developed by specific NGOs with sites granted on PTG and will not therefore be available for competitive bidding.

Social Welfare Department
MAY 2002



中華人民共和國香港特別行政區政府總部衛生福利局
Health and Welfare Bureau
Government Secretariat, Government of the Hong Kong Special Administrative Region,
The People's Republic of China

Our Ref. : HW/ES/3/24 Pt. 2(01)
Your Ref CB(3)/PAC/R38

Tel No. : 2973 8200
Fax No. : 2840 0467

24 May 2002

Clerk to Public Accounts Committee
LegCo Secretariat
(Attn : Miss Sandy Chu)
Legislative Council Building
8 Jackson Road
Central

BY FAX : 2537 1204

Dear Miss Chu,

**The Director of Audit's Report on the
results of value for money audits (Report No. 38)**

Chapter 5: Residential services for the elderly

I refer to your letters of 7 and 15 May and append below the information as requested.

Statistics on Central Infirmary Waiting List

2. Annex I contains statistics on applicants on the central infirmary waiting list (CIWL) from 1996/97 to 2001/2002, and infirmary places provided during the same period. To present a fuller picture, I also enclose at Annex II a breakdown of the applicants by their place of residence at the time of application from 1998/99 onwards.

3. I would like to highlight that the majority of applicants on the CIWL are already receiving some form of public services, as reflected from the breakdown of their place of residence:

- (a) About 70% of the applicants are living in care homes (20% in subvented care homes and 50% in private/self-financing care homes). In addition, the Hospital Authority's Community Geriatric Assessment Teams (CGATs) provide outreaching geriatric care to all subvented care homes and the majority of the private care homes. Infirmary Units are set up and Infirmary Care Supplement is provided to enable a number of subvented care and attention homes to take care of elders assessed to be in need of infirmary care;
- (b) About 10% of the applicants are receiving other types of hospital services; and
- (c) For the remaining 20% of the applicants living in their own homes, community care and support services are available and provided mainly by the welfare sector as required. These include Community Nurses and enhanced home and community care services, which is a package of centre and home-based services tailor-made to meet the individual care needs of frail elders.

4. You may wish to note that the total number of infirmary beds increased from 1,915 in 1996/97 to 2,851 in 2001/02. 68 beds were added in 2000/01 over the previous year, and were allocated for use by post-acute patients instead of by applicants on the CIWL. The reason for giving priority to patients in the hospital sector is to lessen the pressure on acute beds, the costs of which are much higher than infirmary beds. The majority of post-acute patients are elders, for example, stroke patients who immediately become severely disabled and who require urgent post-acute infirmary care. On the other hand, the majority of CIWL applicants are already receiving some form of care through different channels as described in paragraph 3 above.

5. As you will see from Annex I, the number of active applicants on CIWL has reduced from 5,690 in 1998/99 to 4,973 in 2001/02. The average waiting time for CIWL applicants admitted in the year 2001/02 is 39 months.

Planning Ratio for Infirmiry Places

6. The planning ratio of five infirmiry beds per 1,000 elders aged 65 or above was adopted by the Medical Development Advisory Committee of the previous Medical and Health Department in 1981. There was no target set for the average waiting time or reduction of average waiting time for infirmiry beds at the time.

7. Since then, there have been significant developments in the provision of medial and care services for frail elders. The Hospital Authority, which was established in 1991, conducted regular three to five yearly reviews of the requirement for different types of hospital beds, including infirmiry beds, on a territory-wide basis. In conducting such reviews, the Hospital Authority took into account a number of factors, including population statistics, observed changes in disease patterns, and the prevailing utilisation patterns of hospital services. The reviews formed the basis for Hospital Authority's discussion with the Administration on capital and recurrent funding, in order to meet the changing needs of the population. In the context of these reviews, a target to provide 1,000 infirmiry beds in the next five years was set in 1997/98. The Administration is on schedule in meeting this target. Two years ago, the Hospital Authority reached an agreement with the Administration on moving away from a facility-based funding mechanism to a population-based funding mechanism. Emphasis has been put on post-discharge care and community-based services to support patients to remain in the community.

8. In light of the developments in the planning mechanism for provision of hospital beds and the changing needs for infirmiry beds, the Administration regards that the original planning ratio is no longer appropriate. With experiences gained in practising 'continuum of care' in both community and residential care services for frail elders, the Administration would in due course review the role of the Hospital Authority in the provision of infirmiry care.

Financial Implications of Transferring Infirmiry Care from Hospital to Non-hospital Setting

9. Under the Hospital Authority, infirm patients are actively treated to facilitate their recovery to a stage requiring less intensive care. Existing infirmiry beds admit patients for the following two purposes:

- (a) long term care for applicants of CIWL; and
- (b) extended care for infirm patients transferred from acute hospitals.

10. The transfer of infirmary care from hospital to non-hospital setting is a complex issue which requires further study. For example, not all infirm patients can be transferred from the hospital to a nursing home setting. The Administration will need to examine in detail the various aspects, which include target groups, costings, and the level of care and support services required.

11. Therefore, at this point I can only provide for reference purpose only some rough estimated costs for each type of beds as listed in paragraph 9 :

Per month

(a)	\$19,124
(b)	\$37,826

Note: The estimated costs include administrative overhead (e.g. administrative and maintenance costs for buildings, utilities and equipment) and other non-transferrable costs (e.g. professional and administrative staff) which amount to approximately 26%.

Measures to Improve Quality of Private Care Homes

12. Para 5.23(b) of the captioned report describes the major measures. The Administration has formulated a proposal to grant gross floor area and premium concessions to encourage private developers to incorporate residential care home for the elderly premises in their new private developments. In formulating the proposal, the Administration has taken into account the views of relevant bodies, including the Real Estate Developers Association, the Elderly Commission, the Land and Building Advisory Committee, and the Legislative Council Panels on Welfare Services and Planning, Lands and Works. The Administration is working on the details and will in due course seek amendments to the Building (Planning) Regulations to implement the proposed scheme.

Consideration of Means-testing on Residential Care Services

13. The Administration has not yet formulated any proposal in introducing means-testing for the provision of residential care services. However, in the context of developing a quality and sustainable long term care system, we are examining options that help us target resources at elders with genuine needs. These include the implementation of the standardized care need assessment mechanism since November 2000. We are also exploring the option of setting up a new subsidy arrangement which allows the elders more freedom in choosing care homes, flexibility to contribute more to their own care costs, and a quick access to such service. Given that this is a complex matter, the Administration will require more time to work out the details and implications, including the factor of affordability. It would be a severe financial burden on the elders and their families if they have to pay for a high proportion of the residential care cost, particularly for higher level of care, on a long term basis.

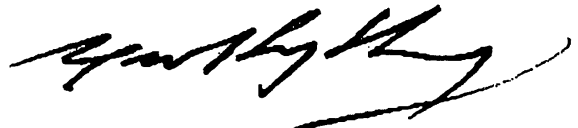
14. In parallel and to create an environment to enable a subsidy scheme to succeed, the Administration has taken some steps to improve the quality of residential care services. These include enhancing training of staff in care homes; dissemination of information on care homes to the public; progressive promulgation of application of subvented service standards in the private sector; commissioning a consultancy study on the establishment of an accreditation system for care homes in Hong Kong with the objective of raising the quality of service; and selecting operators through open tendering to provide additional and quality subsidized and non-subsidized places in all new Government supplied care home premises.

One Stop Service for Provision of Subsidised Long Term Care

15. As stated in paragraph 13 above, the Administration has introduced a standardized care need assessment tool since November 2000. The tool has helped to make more precise matching of services to care needs in both the community and residential settings. As a next step, the Administration is considering to establish a single point of entry for all subsidized community and residential care services. The concept is to no longer require elders to queue up for different services. Instead, there will be one central waiting list for all subsidized long term care services, and services for elders will be matched in accordance with their care needs as assessed by the standardized tool. At this stage, the Administration is working out the details of the proposal.

16. I wish to point out that in implementing any major new strategy, the Administration will consult and take into account the views of relevant parties and pay heed to the appropriate pace of introduction.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Yeoh', with a long horizontal flourish extending to the right.

(Dr E K Yeoh)
Secretary for Health and Welfare

c.c. Chief Executive, Hospital Authority
Director of Social Welfare

Number of Infirmary Places and Number of Applicants on Central Infirmary Waiting List (CIWL) from 1996/97 - 2001/02

		<u>1996/97</u>	<u>1997/98</u>	<u>1998/99</u>	<u>1999/00</u>	<u>2000/01</u>	<u>2001/02</u>
Number of beds as at 31 March (a)	CIWL	728	896	1018	1134	1134	1184
Number of beds as at 31 March (b)	Local Infirmary	1187	1185	1199	1353	1421	1667
Total number of beds (a) + (b)		1915	2081	2217	2487	2555	2851
Number of new admissions for the period ending 31 March	CIWL	393	206	522	388	347	
Number of deaths/discharges for the period ending 31 March*	Local Infirmary	3084	4180	4526	5345	5806	
Number of applicants on CIWL as at 31 March		6248 [^]	7692 [^]	5690 (Active)	5062 (Active)	5218 (Active)	4973 (active)

Remarks:

1. CIWL = Central Infirmary Waiting List
2. Local Infirmary = local infirmary beds are for patients from general and acute wards
3. *Number of deaths/discharges indicates turnover in use of local infirmary beds.
4. Number of CIWL new admissions and number of deaths/discharges for local infirmary beds for the period ending 31 March are not yet available for 2001/02
5. [^] As the death match function was not available in the system before end 1998, these figures include death cases. Hence, the number of CIWL applicants in 1996/97 and 1997/98 appears to be higher
6. Active cases exclude closed cases due to death, self-withdrawal and temporarily not requiring infirmary placement

Breakdown of CIWL Applicants by Place of Residence

<u>Type of Residence</u>	<u>31.Mar.99</u>	<u>31.Mar.00</u>	<u>31.Mar.01</u>	<u>31.Mar.02</u>
Hospital (excluding infirmary)	383	441	504	532
Subvented care and attention home	1149	1003	1049	1114
HFA (ie subvented home for the aged or hostel for the elderly (meal section))	28	30	39	43
Subvented nursing home	3	6	64	74
Private care home	2877	2557	2507	2248
Public housing	250	259	296	301
Private housing	319	369	456	456
Others	681	397	303	205
Total (Active)	5690	5062	5218	4973

Note: (a) Statistics on CIWL applicants by type of housing before 1998 are not available.

(b) Elders in the 'Others' category most likely reside in the community.

(c) Active cases exclude closed cases due to death, self-withdrawal and temporarily not requiring infirmary placement

Housing for Senior Citizens 長者住屋
as at 31.3.2001 截至 31.3.2001

地區 District	屋邨 Estate	大廈名稱 Block Name	大廈類別 Block Type	總數量 Total Stock	空置單位 總數量 Vacant Total
Urban 市區	Yiu Tung 耀東	Yiu Fung 耀豐樓	H	66	2
	Yiu Tung 耀東	Yiu On 耀安樓	H	66	0
	Yiu Tung 耀東	Yiu Cheong 耀昌樓	H	128	1
	Hing Tung 興東	Tung Lam Court 東霖苑	H	105	5
	Hong Tung*康東	Hong Shui 康瑞樓	SHB	160	2
	Tin Wan 田灣	HSC 長者住屋	NST	126	1
	Wah Kwai*華貴	Wah Oi 華愛樓	SHB	127	3
	Tsz Ching 慈正	Chung Hong 正康樓	H	114	8
	Fung Tak 鳳德	Toi Fung 黛鳳樓	TR	138	11
	Tze Lok 慈樂	Lok Shing 樂誠樓	H	76	0
	Tze Lok 慈樂	Lok Wong 樂旺樓	H	79	0
	Tze Lok 慈樂	Lok On 樂安樓	H	111	3
	Tze Lok 慈樂	Ancillary Facilities Block 慈樂邨服務設施綜合大樓	NST	144	4
	Sheung Lok*常樂	Sheung Lok 常樂樓	SHB	136	15
	Wong Tai Sin (2)黃大仙下二	Lung Chi 龍智樓	H	138	4
	Choi Ha 彩霞	Choi Sing 彩星樓	TR	138	1
	Sau Mau Ping 秀茂坪	Ancillary Facilities Block 秀茂坪邨服務設施綜合大樓	AFB	131	0
	Sau Mau Ping 3 秀茂坪三	Sau Lok 秀樂樓	H	159	9
	Wan Hon*雲漢	Hon Pak 漢柏樓	SHB	130	3
	Tak Tin 德田	Tak Hong 德康樓	NST	216	1
	Tak Tin 德田	Tak Lung 德隆樓	TR	138	4
	Tak Tin 德田	Tak Shui 德瑞樓	TR	138	3
	Tsui Ping 翠屏南	Tsui Heng 翠杏樓	H	156	2
	Tsui Ping 翠屏南	Tsui Wing 翠榮樓	H	156	1
	Tsui Ping*翠屏南	Tsui Mei 翠媚樓	SHB	102	2
	Ko Yee 高怡	Ko Yuen 高遠樓	H	114	3
	Ko Yee 高怡	Ko Shing 高盛樓	SHB	90	9
	Ko Yee 高怡	Ko Yuet 高悅樓	SHB	66	12
	Kai Tin 啓田	Kai Shun 啓信樓	H	76	2
	Kai Tin 啓田	Kai Wong 啓旺樓	H	79	1
	Ping Tin 平田	Ping Yan 平仁樓	H	114	1
	Ping Tin 平田	Ancillary Facilities Block 平田邨服務設施綜合大樓	NST	197	1
	Hoi Fu 海富苑	Hoi Tai 海泰閣	HS2	197	1
	Pak Tin*白田	On Tin 安田樓	NST	128	1
	Pak Tin 白田	Shui Tin 瑞田樓	SHB	288	0

地區 District	屋邨 Estate	大廈名稱 Block Name	大廈類別 Block Type	總數量 Total Stock	空置單位 總數量 Vacant Total
	Un Chau 元州	Un Hong 元康樓	HS2	197	0
	Un Chau 元州	Un Wo 元和樓	HS2	197	3
	Lai On 麗安	Lai Ching 麗正樓	H	76	0
	Lai On 麗安	Lai Ping 麗平樓	H	79	1
Sub Total 小計				5076	120
Extended Urban 擴展市區	King Lam 景林	King Yu 景榆樓	TR	138	20
	Hau Tak 厚德	Tak Chak 德澤樓	H	79	11
	Hau Tak 厚德	Tak Fu 德富樓	H	76	10
	Sheung Tak 尚德	Sheung Nim 尚廉樓	NST	197	81
	Ming Tak 明德	Ming Kok 明覺樓	H	79	14
	Ming Tak 明德	Ming Toa 明道樓	H	76	9
	Cheung Fat 長發	King Fat 敬發樓	TR	141	49
	Cheung Hang 長亨	Hang Lai 亨麗樓	TR	138	32
	On Yam 安蔭	Tak Yam 德蔭樓	H	79	9
	On Yam 安蔭	Yiu Yam 耀蔭樓	H	76	12
	On Yam 安蔭	Fung Yam 豐蔭樓	H	114	20
	Kwai Fong 葵芳	Kwai Ching 葵正樓	H	76	10
	Kwai Fong 葵芳	Kwai Ming 葵明樓	H	79	11
	Kwai Fong 葵芳	Kwai Tai 葵泰樓	H	114	24
	Kwai Chung 葵涌	Chun Kwai 春葵樓	H	79	15
	Kwai Chung 葵涌	Ha Kwai 夏葵樓	H	76	14
	Kwai Shing East*葵盛東	Shing Ka 盛家樓	SHB	156	38
	Lai Yiu*麗瑤	Wing Yiu 榮瑤樓	SHB	141	51
	Shek Lei 石籬一	Shek Tai 石泰樓	H	152	25
	Shek Yam*石蔭	Yung Shek 勇石樓	SHB	132	63
	Shek Yam East 石蔭東	Yam Yue 蔭裕樓	H	155	15
	Chung On 頌安	Chung Tak 頌德樓	H	156	7
	Heng On 恆安	Heng Fung 恆峰樓	TR	138	18
	Kwong Yuen 廣源	Kapok 廣棉樓	TR	135	12
Sub Total 小計				2782	570
N.T. 新界	Fu Heng 富亨	Heng Tsui 亨翠樓	TR	140	7
	Tai Wo 太和	Kui Wo 居和樓	TR	138	11
	Wan Tau Tong 運頭塘	Wang Hang 運亨樓	TR	138	20
	Wah Ming 華明	Lai Ming 禮明樓	TR	138	21
	Yung Shing*雍盛苑	Ancillary Facilities Block 雍盛苑服務設施綜合大樓	SHB	135	10
	Ka Fuk 嘉福	Fuk Lok 福樂樓	H	152	4
	Tin King 田景	Tin Yue 田裕樓	TR	138	3

地區 District	屋邨 Estate	大廈名稱 Block Name	大廈類別 Block Type	總數量 Total Stock	空置單位 總數量 Vacant Total
	Tin Wah 天華	Ancillary Facilities Block 天華邨服務設施綜合大樓	NST	197	38
	Tin Yuet 天悅	Ancillary Facilities Block 天悅邨服務設施綜合大樓	HS2	197	78
	Tin Tsz 天慈	Tsz Fai 慈輝樓	H	152	5
Sub Total 小計				1525	197
Total 總數				9383	887

備註：

Notes:

* Toilet Contained Inside Flat 房間內有廁所

H Harmony 和諧式公屋

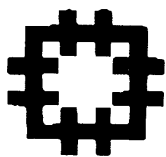
TR Trident Y 型公屋

NST Non-standard 非標準設計公屋

SHB Special Harmony Block 特別和諧式公屋

HS2 Housing for Senior Citizen Type (2) in Ancillary Facilities Block 位於服務設施綜合大樓內

(BC13665)



HONG KONG HOUSING AUTHORITY

Housing Authority Headquarters, 33, Fat Kwong Street, Kowloon, Hong Kong.

香港房屋委員會

九龍佛光街33號房屋委員會總辦事處

Our Ref. HD(H)APP/LL 3/4/1

Tel. No. 2761 7009

Fax No. 2715 8871

Your Ref. CB(3)/PAC/R38

來件編號

15 May 2002

Miss Sandy CHU
Clerk, Public Accounts Committee
Legislative Council
8 Jackson Road, Central
Hong Kong

Dear Miss Chu,

**The Director of Audit's Report on the
results of value for money audits (Report No. 38)**

Chapter 5: Residential Services for the Elderly

I refer to your letter of 7 May 2002 and enclose the requested information in both English and Chinese on letting of the 887 vacant HSC units in the **Appendix** for the consideration of the Public Accounts Committee.

Yours sincerely,



(K.H. LAU)
for Director of Housing

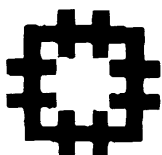
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Appendix

1. The position of the 887 vacant HSC units as at 30.4.2002 was as follows :-

Let	Under Offer	Still Vacant	Total
383	210	294	887

2. Vacant HSC units are being offered to eligible applicants including non-elderly applicants. 1,253 offers have been made since the units have become vacant. Should the less popular units be not taken up, the Department will put these flats under the Express Flat Allocation Scheme for selection by all eligible Waiting List applicants. Under the Scheme, applicants can get earlier rehousing than their normal turn if they are prepared to take up the less popular flats. Regular exercises are being conducted under the Scheme.



HONG KONG HOUSING AUTHORITY

Housing Authority Headquarters, 33, Fat Kwong Street, Kowloon, Hong Kong.

香港房屋委員會

九龍佛光街33號房屋委員會總辦事處

Our Ref.

本函編號

Tel. No.

電話

Fax No.

圖文傳真

HD(H)APP/LL 3/4/1

2761 7008

2715 8871

Your Ref.

來件編號

CB(3)/PAC/R38

10 June 2002

Miss Sandy CHU
The Clerk
Public Accounts Committee
Legislative Council
8, Jackson Road Central
Hong Kong

Dear Miss CHU,

**The Director of Audit's Report on the
results of value for money audits (Report No. 38)
Chapter 5 : Residential Services for the Elderly**

Thank you for your letter of 30 May 2002 seeking additional information regarding the letting position and policy of Housing for Senior Citizens.

My response is given at the Appendix. The Chinese version of it will be forwarded to you separately.

Yours sincerely,



(K.H. LAU)
for Director of Housing

c.c. Secretary for Housing
Secretary for Health and Welfare
Secretary for the Treasury
Director of Social Welfare
Director of Health
Chief Executive, Hospital Authority
Director of Audit

Appendix

- (a) **Regarding the position of the 887 vacant Housing for Senior Citizens (HSC) units as at 30 April 2002, as stated in the Appendix of my letter of 15 May 2002**

- (i) **breakdowns by the elderly and the non-elderly of the 383 units which had been let and the units under offer**

As the letting of HSC units is an on-going process, the vacancy position changes daily due to the recovery and the successful letting of vacated flats. Only current vacancy position can readily be retrieved from the computer system. The information regarding the 383 vacant units and 210 under offer cases as at 31 March 2001 have become historical data. We need a much longer processing time to trace manually all individual application and tenancy records for retrieval of relevant particulars of the tenants and applicants.

The Committee may, however, wish to note that since relaxation of the age restriction from 60 to 55 in April 2001 and subsequently total lifting of the age limit in November 2001, 223 non-elderly applicants have been rehoused to HSC units as at 31 May 2002. In addition, 229 HSC units were under offer to non-elderly applicants as at 31 May 2002 with intake dates in early June 2002.

- (ii) **the timetable for making full use of the 294 units which were vacant**

All vacant HSC units including these 294 units are under a continuous process of allocation, although some of them may not be accepted by the applicants for one reason or another. In order to expedite the letting of vacant HSC units, we will be sending individual invitations around mid June to all applicants who are at end of the queue including those not satisfying the Residence Rule, to join the Express Flat Allocation Scheme. The application period will be from 24 June to 8 July 2002. At the time of arranging flat-selection under the scheme in early August, all the said 294 units, if still vacant, will be put up for selection by eligible applicants. We hope that many of the vacant HSC units will be taken up by the end of the selection period in September, 2002.

- (b) **Having noted that the HD would as far as possible allocate vacant HSC units according to the elderly applicants' preference, including HSC units close to their families, the Committee would like to know whether**

the HD had implemented any administrative arrangements in this regard, e.g. the issuance of notices to residents of public housing estates, and would like to have sight of the documents relating to such arrangements

There is already in place an established policy to facilitate special transfer for elderly tenants near to his/her family members already living in public housing so that the younger members can look after them. The policy is laid down in Chapter 4 Section A of the General Housing Policies issued to all District Council Members, the relevant part of which is now annexed. The

General Housing Policies are made known to Estate Management Advisory Committees (EMAC) and regular EMAC newsletters to tenant of the estates have adequate coverage of such policies.

Moreover, during the vetting interview of the elderly persons before allocation, an elderly applicant's request to be rehoused to a specific HSC near his/her relatives in public housing will be recorded in the interview form for follow-up action by the allocation team. Matching can normally be made to those HSCs especially in the more remote estates with higher vacancy rates.

(c) Whether the HD would consider adopting the following two proposals to make full use of vacant HSC units :

- (i) if there were some residents of public housing estates whose parents were already on the waiting list for HSC units and there were vacant HSC units in their housing estates, their parents would be invited to apply for these vacant units;**

The elderly parents have to be successfully registered on the Waiting List in the first instance. During the vetting interview of the elderly applicants, the elderly's rehousing preference will be noted in the interview form. Offer of rehousing to a specific HSC can normally be made as far as resources permit.

- (ii) if there were two or more applicants who wished to share a unit but they were at different places on the waiting list for HSC units, priority would be given to them in the allocation of vacant HSC units.**

For the information of the Committee, only 333 (3.5%) out of the total stock of 9,580 HSC units are 2-person units. They are suitable for couples, related persons or unrelated elderly persons who opt to live together. Two or more related or unrelated elderly persons are encouraged to apply together under one single application. Under the Elderly Persons Priority Scheme (EPS) already implemented

since 1979, related or unrelated elderly persons can apply together for public housing and be rehoused together earlier. If individual applications from the elderly persons occur in the process of waiting, the later applications can be advanced through combining with the earlier one. Since implementation in 1979, about 15,000 elderly applicants have benefited from the EPS.

(d) **The number of applicants for HSC units who would get earlier rehousing than their normal turn**

Compared with the current average waiting time for families at 3 years, the current average waiting time for single elderly at 1.2 years is obviously more favourable. This is far ahead of the Government's target of 2 years by 2005. As has been explained in (C) (i) and (ii) above, we are in fact already adopting the Committee's proposals in the allocation of flats for the elderly. As we are planning to promote the general awareness of the EPS, we would take the opportunity to publicize the measures in place so as to ensure that all prospective elderly applicants are fully aware of the scheme.

Depending on the locations of HSC, elderly applicants choosing the less popular HSCs can have earlier rehousing. The shortest waiting time at the moment is about 3 months. These less popular HSCs are all open to the existing 8,016 elderly applicants registered on the Waiting List. The potential benefit of the Committee's proposals will be these 8,016 elderly applicants.

Section A

Chapter 4: Transfer

Mutual Exchange

Public housing tenants who wish to move to other estates of their choice through exchanging their existing flats with those of other tenants may approach the "Tenants Mutual Exchange Bureau" (TMEB) at the Hong Kong Housing Authority Customer Service Centre, Podium Level 2 at 3, Wang Tau Hom South Road, Kowloon or their estate office for registration. The tenants should bring along their identity cards and the photo-copies of the identity cards and birth certificates of all family members, the tenancy agreement/card, current rent card and \$20.- for the registration fee. All applications will be entered into the Bureau's computer system and searches will be made to see whether a suitable exchange can be arranged.

Each registration is valid for two years only during which the TMEB will endeavour to arrange a maximum of four matches for the applicants. If the applicant has rejected all the four matches, his/her application will automatically be cancelled. Besides, he/she will be debarred from registration on the TMEB for one year from the date of his/her final refusal.

Tenants should not make any unauthorized exchanges themselves, otherwise, they will breach the tenancy conditions thereby resulting in termination of their tenancies by the Housing Authority.

Internal/External Transfer

(1) Special Transfer

Tenants who have genuine difficulties in continuing living in their existing flats due to special circumstances or on medical/social grounds may apply for transfer to a flat in the same or another estate. Should tenants in financial difficulties find it hard to afford the existing rent, they may request transfer to flats of a cheaper rent in another estate. Those tenants who are seriously handicapped or in poor health conditions and in need of a private toilet or washing and cooking facilities may also apply for transfer to a suitable flat in the same or another estate.

(2) Pre-redevelopment Transfer

To fully utilize the limited resources, tenants in estates scheduled for redevelopment within three years may apply for 'pre-redevelopment transfer'. When suitable flats in new estates are available, these tenants will be invited by notices to apply. Upon relocation to new flats and surrender of their existing

public housing units, tenants will be granted a removal allowance.

(3) **Transfer for Major Repairs/Improvement Programmes**

Tenants who have to move out due to structural problems or comprehensive repair and improvement works of their block will be allocated another suitable flat by the Housing Department. These tenants are also entitled to a removal allowance upon surrender of their existing public housing unit.

(4) **Transfer for Creation of Suitable Vacancies in Older Estates**

In order to create suitable vacancies at certain old estates to meet demand from rehousing categories such as redevelopment and clearances, the Housing Department will set aside a number of flats in new estates for application by the tenants of older estates.

Overcrowding Relief (OR)

To uphold the principle of equitable utilization of public rental housing (PRH) resources for those in genuine need, which was re-affirmed by the Long Term Housing Strategy White Paper published in 1998, and to enhance the effectiveness of the existing OR mechanism, the HA revised the Policy on Overcrowding Relief on 23.1.2001.

Territory-wide OR transfer exercises will be conducted centrally by the Applications Section of the Housing Department three to four times a year subject to availability of housing resources. The OR process is further streamlined by inviting applications for each transfer exercise from overcrowding households in need of relief through public advertisements and notices put up in estate offices and individual housing blocks. Details on OR arrangements, eligibility criteria and particulars of flats available in the exercise, etc. will be put up on notice boards for tenants' information.

Eligible applicants will be invited for flat selection, however, households living in the New Territories (NT) may only select flats in the NT estates while households in extended urban areas may not choose flats in urban estates.

Conditions and Eligibility Criteria

(1) **Eligibility criteria**

- (a) occupying public rental housing accommodation with density less than 5.5m² internal floor area (IFA) per person;
- (b) passing the domestic property test (DPT), i.e. during the period from 24 months prior to the closing date of the OR transfer exercise up to the date of signing up new tenancy, all household members must not own any

domestic property in Hong Kong;

- (c) passing the comprehensive means test (CMT) with income and asset limits being the same as those used in the Housing Subsidy Policy and the Policy on Safeguarding Rational Allocation of Public Housing Resources (please refer to Chapters 4 and 5 of Section B for details of the relevant limits); and
- (d) all members of the household should not be in breach of any clause of the tenancy agreement and the occupancy position of the PRH unit should be in order.

(2) Order of priority for flat selection

The living density of applicants will determine the order of priority for flat selection - household with the highest density will come first. Density being the same, the household of a larger size will have priority. Both conditions being the same, the length of residence in the existing tenancy will determine. All things being equal, priority on flat selection will be determined by ballot. On the production of medical certificate, an unborn child of at least 16 weeks gestation as at the date of application will be counted as one family member in the calculation of living density.

(3) Rent levels and declarations on household income and assets after OR

After successful transfer to a larger flat, the household has to pay normal, 1.5 times or double net rent plus rates according to the level of their household income (please refer to Chapter 4 of Section B for details). They will be required to declare their household income/assets once every two years irrespective of the length of their residence in public housing. Households paying normal or one and a half times net rent shall declare their household income biennially. Those paying double rent shall declare their household assets biennially. For households which tenancies before transfer are granted under the Policy on Grant of New Tenancy, they shall continue to declare their household income and assets every two years as required under the policy.

(4) Second Priority Green Form status

For non-property-owning household which application for OR is rejected for failing the CMT, they will, however, be accorded Second Priority Green Form status (valid for one year) in flat selection to purchase a flat under Home Ownership Scheme/Private Sector Participation Scheme or to purchase a flat under other subsidized home ownership schemes.

(5) One-year time bar

Unsuccessful applicants may apply again in the next OR exercise. However, eligible applicants who fail to secure a flat after being invited to flat selection exercises for three times (either because they refuse to select flats or fail to turn up for flat selection) will have their eligibility for OR frozen for one year.

(6) OR in blocks due for redevelopment within three years

Vacated flats in blocks due for redevelopment within three years may be used

for OR within the same block. When such vacancies arise, they will be advertised on block basis to invite applications from overcrowded families. In case the vacated flats advertised outnumber the applications received, the flat will first be allocated to applicants living adjacent/opposite to the vacated flats under Automatic Offer (AO). Any flat, which cannot be disposed of by way of AO for whatever reasons, will be allocated to another eligible family within the same block with priority being determined on the basis of degree of overcrowding. If the reverse is true, the vacated flats will be allocated to those families with the highest living density.

Eligible overcrowded families are usually allocated larger flats. Under special circumstances, such as where the vacated flats are situated in blocks due for redevelopment within three years, the Housing Department may consider allocation of additional flat(s) for relief of overcrowding. Nevertheless, families who have obtained additional flat(s) for OR will not be allowed to acquire extra housing benefits, e.g. extra entitlement to purchase additional Home Ownership Scheme/Private Sector Participation Scheme flats or to acquire additional loan under the Home Purchase Loan Scheme.

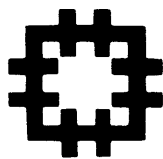
Transfer of Tenants Occupying Converted One-person (C1P) Flats

Flats which provides the occupants with exclusive living area but shared toilet and balcony facilities within the partitioned premises is termed C1P flats. The Housing Authority endorsed on 23.1.2001 to open up an additional channel for the C1P tenants, especially those living in an overcrowded condition, to acquire self-contained accommodation.

Subject to availability of housing resources the Housing Department will make available each year an appropriate number of such flats (particularly those suitable for re-allocation to households with two or more persons) for the transfer of the C1P tenants. Territory-wide transfer exercises will be conducted centrally by the Application Section and the C1P tenants will be invited to submit applications through notices put up on notice boards in estates.

Other than being tenants of C1P flats, applicants should pass the DPT and CMT as those applying for OR.

For eligible applicants, their order of priority for flat selection, restriction on choice of locality, rent levels and declarations on household income and assets after transfer, as well as the one-year time bar, are the same as those under OR.



HONG KONG HOUSING AUTHORITY

Housing Authority Headquarters, 33, Fat Kwong Street, Kowloon, Hong Kong.

香港房屋委員會

九龍佛光街33號房屋委員會總辦事處

Our Ref.

本函檔號

HD(H)APP/LL 3/4/1

Tel. No.

電話

2761 7009

Fax No.

圖文傳真

2715 8871

Your Ref.

來件檔號

CB(3)PAC/R38

22 May 2002

Miss Sandy CHU
Clerk, Public Accounts Committee
Legislative Council
8 Jackson Road, Central
Hong Kong

Dear Miss CHU,

**The Director of Audit's Report on the
results of value for money audits (Report No. 38)
Chapter 5 : Residential Services for the Elderly**

Thank you for your letter of 16 May 2002 seeking additional information on the above subject.

I enclose your requested information in both English and Chinese on letting of vacant HSC units in the **Appendix** for the consideration of the Public Accounts Committee.

Yours sincerely,

(K. H. LAU)

for Director of Housing

Further information to the Public Accounts Committee
on
The Director of Audit's Report on the
results of value for money audits (Report No. 38)
Chapter 5 : Residential services for the elderly

(a) Measures to encourage elderly applicants to take up HSC units.

Video to promote HSC has been produced and is being shown to elderly applicants non-stopped at the enquiry counter of the Housing Authority's Customer Services Centre. It is also played regularly at all the seven Housing Information Centres throughout the territory. Our video has highlighted to the elderly applicants that 24-hour warden services and social activities are provided at all HSCs which are fitted with emergency alarm system and purpose-built fittings available for them. Guided tours are arranged for interested applicants to visit our HSCs.

(b) Allocating HSC units to elderly applicants whose families are residents of the public housing estates where the HSC units are located.

We will as far as possible allocate HSCs according to the elderly applicants' preference including those HSCs close to their families, subject to availability of suitable premises. In addition, we have the Families with Elderly Persons Priority Scheme in place giving priority in allocation of flats to those families with elderly persons included in their applications.

(c) The average waiting time in relation to putting refused HSC units (refused one time up to five times) under the Express Flat Allocation Scheme (EFAS).

Making one offer to an elderly applicant, allowing time for viewing the flat and subsequently considering to accept or reject a housing offer will take four weeks' time to complete. Therefore, under the five scenarios

prescribed by Members of Public Accounts Committee, four weeks' time is required under each scenario. With the EFAS in place, the shortest waiting time for ordinary Waiting List and elderly applicants has been reduced to about three months against the current average waiting time of 3.2 years and 1.3 years for the respective groups. The existing arrangements under the EFAS has proved to be effective in maximizing the utilization of available public housing resources as well as reducing the waiting time of applicants.



中華人民共和國香港特別行政區政府總部衛生福利局
 Health and Welfare Bureau
 Government Secretariat, Government of the Hong Kong Special Administrative Region
 The People's Republic of China

Our Ref. : HW/ES/3/24 Pt.2 (01)
 Your Ref : CB(3)/PAC/R38

Tel No. : 2973 8200
 Fax No. : 2840 0467

12 June 2002

Clerk to Public Accounts Committee
 LegCo Secretariat
 (Attn : Miss Sandy Chu)
 Legislative Council Building
 8 Jackson Road
 Central

BY FAX : 2537 1204

Dear Miss Chu,

**The Director of Audit's Report on the
 results of value for money audits (Report No. 38)**

Chapter 5: Residential services for the elderly

Thank you for your letter of 30 May requesting additional information on the planning ratio for infirmary places and on measures that the Administration has adopted to meet the demand for residential services for elders. The supplementary information is set out in the following paragraphs.

Planning Ratio for Infirmary Places

2. First of all, I would like to point out that as shown in Annex I of my previous letter dated 24 May, the total number of infirmary beds in 2001/02 is 2851. This represents a ratio of 3.8 infirmary beds per 1,000 elders aged 65 or above. The total number of infirmary beds will be increased by 100 to 2,951 by March 2003, and the ratio will correspondingly be increased to 3.9 infirmary beds per 1,000 elders. I would also like to point out that the

Administration is on schedule in meeting the policy pledge set in 1997/98 in providing 1,000 infirmity beds by 2002/03.

3. As regards the planning ratio of 5 infirmity beds per 1,000 elders, in my previous letter, I have set out the significant developments in the provision of medical and care services for frail elders since its adoption in 1981. These developments include the planning mechanism for provision of hospital beds with the establishment of the Hospital Authority in 1991, and strengthening of both community and residential services practising continuum of care to take care of elders with higher levels of frailty.

4. I would like to clarify that the Administration has not abolished the planning ratio, but considers this target which was set over twenty years ago is no longer appropriate and should be reviewed in light of the above developments. The Administration further considers that in addition to the planning ratio, the review should cover the changing needs for infirmity beds and the role of the Hospital Authority in provision of such beds. Given that this is a complex subject, the Administration will require some time to work out proposals. When we have definite proposals on specific areas, we will consult relevant parties including the Elderly Commission and the relevant Panels of the Legislative Council.

Measures to Meet Demand for Residential Services

5. The Administration will continue to accord priority to meeting the care needs of frail elders, including the need for residential services. However, I wish to point out that the waiting list for residential services (comprising about 27 000 applicants) does not totally reflect genuine need as:

- (a) The applicants have not yet undergone the standardized care need assessment mechanism; and
- (b) About 50% of the applicants are residing in private or self-financing homes, or in subvented care homes receiving lower levels of care services; or are receiving some form of home and community services.

6. The Administration will continue to respond to demands for long term care services by enhancing value for money and improving services. With the introduction of enhanced home and community care services

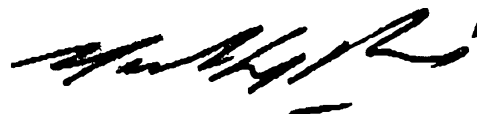
(EHCCS) in April 2001, eligible elders for residential services are given the option to receive the new services in lieu of residential services, or while they are awaiting residential services placement. About 29,000 elders are now being served by a range of community services, including EHCCS, representing about 60% increase compared to 1997/1998. The Administration intends to re-engineer and upgrade existing community support services, and to further expand EHCCS to ensure appropriate care services are provided to frail elders once their care needs are determined by the standardized care need assessment mechanism.

7. In parallel, the Administration will continue to provide residential services for those elders who require such services through a mixed mode of service provision, with participation from non-governmental organizations and the private sector. There are about 26,000 subsidised beds, representing about 62% increase compared to 1997/1998. In 2002-2003, the Administration will provide an additional 1,600 subsidised beds.

8. The Administration will keep the provision of long term care services, including residential services, under regular review, taking into account the experience of EHCCS, and the service needs as determined by the standardized care need assessment mechanism.

9. I hope the additional information above will assist members of the Public Accounts Committee to further consider Audit's review on residential services for elders.

Yours sincerely,



(Dr E K Yeoh)

Secretary for Health and Welfare

c.c. Secretary for the Treasury
Director of Social Welfare
Director of Housing
Director of Health
Chief Executive, Hospital Authority
Director of Audit



醫院管理局
HOSPITAL
AUTHORITY

群策群力為病人·優質醫護滿杏林
Quality Patient-Centred Care Through Teamwork

Your Ref : (21) in UI/SWD/INP/0-2

25 May 2002

Director of Audit
(Attn : Mr Albert Wong)
Audit Commission
26/F Immigration Tower
7 Gloucester Road
Wanchai
Hong Kong

Dear Mr Wong,

**The Director of Audit Report on the
results of value for money Audits (Report No. 38)**

Your letter dated 12th May 2002 refers.

Under the Hospital Authority, infirmed patients are actively treated to facilitate their recovery to a stage requiring less intensive supervision. Therefore existing infirmery beds admit patients for the following purposes:

- (1) long term care for applicants on the Central Infirmery Waiting List
- (2) extended care for infirmed patients transferred from acute hospitals

The average monthly cost of \$30,000 per infirmery bed day occupied as stated in the Audit Report No. 38 is the average subsidy for infirmery beds under these two categories.

The estimated costs for each type of beds mentioned above are:

	<u>Per month</u>
(1)	19,124
(2)	37,826

.../2

The estimated costs include administrative overhead (e.g. administrative and maintenance costs for buildings, utilities and equipment) and other non-transferrable costs (e.g. professional and administrative staff) which amount to approximately 26%.

Forwarded for your action please.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Daisy DAI', with a stylized flourish at the end.

(Dr Daisy DAI)
for Chief Executive
Hospital Authority

cc Clerk/Public Accounts Committee (Attn : Miss Sandy CHU)
CE/HA
D(PS&MD)
D(F)
SFM(D)C
DS2/HWB



香港社會服務聯會
The Hong Kong Council of Social Service

APPENDIX 22

贊助
行政長官
董建華先生
行政總裁
方敏生女士

PATRON
The Honourable
TUNG Chee Hwa
CHIEF EXECUTIVE
Ms. Christine M. S. FANG

By fax
May 3, 2002

Mr Colin Chui
Clerk
Public Accounts Committee
Legislative Council

Dear Mr Chui,


Re : Audit Commission's Report on Residential Services for the Elderly

I am writing to express our concern towards the above report published on April 24, 2002, which might have far-reaching impact on residential services for the elderly. Knowing that the Committee is going to consider the captioned report, we would like to share the views of the NGO sector with the members. Please kindly assist in circulating the attached paper to the members for their consideration.

Please feel free to call me at 2864 2929 if you wish to have more discussion on this issue.

Best wishes !

Yours sincerely,


Christine M.S. Fang
Chief Executive

c.c. The Hon Bernard Chan, Chairperson, HKCSS
Dr E.K. Yeoh, J.P., Secretary for Health & Welfare
Mrs Carrie Lam, J.P., Director of Social Welfare



香港軒尼詩道15號風采公署社會服務大樓13樓 13/F, Duke of Windsor Social Service Bldg, 15 Hennessy Rd, Hong Kong
Tel: (852) 2864 2929 Fax: (852) 2865 4918 council@hkcss.org.hk http://www.hkcss.org.hk

THE HONG KONG COUNCIL OF SOCIAL SERVICE

Response to the Audit Commission's Report on the Residential Services for the Elderly (April, 2002)

1. Value of Residential Services for the Elderly

- 1.1 *"Hong Kong's elderly have contributed much to our success over the years. It is only right that we should help them to enjoy a sense of security, a sense of belonging, good health and a feeling of personal worth", said by the Chief Executive in his Policy Address 1998.* It is the government and indeed, the society's commitment to take good care of our seniors and to show our respect for their invaluable contributions.
- 1.2 Since 1960's, a whole range of residential care services have been developed to take care of the elderly persons according to their social and physical needs. For years, these homes have been providing high quality care for the elderly and the services are well accepted by the whole society. The fact that the elderly persons choose to wait 35 months for a subvented C&A place instead of 11 months for a bought place in a private home is the best evidence.
- 1.3 Taking into consideration the economic difficulties we faced recently, our sector is ready to explore cost-effectiveness options that can bring about the same high quality services already established and recognized by the society. For instance, the provision of infirmary care in the nursing homes, the phasing out of the Home for the Aged, etc.

2. Policy Direction in Residential Care Services for the Elderly

- 2.1 In a Report of the Elderly Commission issued in 2000, the concepts of "Ageing in Place" and "Continuum of Care" have been affirmed to be the key policy directions on care for the elderly which enable the elderly persons to grow old in a familiar environment without moving to other institutions upon deterioration of their health. Several researches have confirmed that relocation would increase the death rates of the elderly.

3. Provision of subsidized nursing home and infirmary care

- 3.1 To actualize the concept of "continuum of care", residential care should be able to provide care to the elderly persons requiring different levels of

care, from moderate (C&A homes) to severe (nursing homes and infirmaries) levels. ***Thus, we support the idea that the Government should review and decide whether infirmity care should be provided in the welfare setting instead of hospital setting.*** To this, the welfare sector is prepared to discuss with the Administration on how to facilitate such transfer.

- 3.2 The Elderly Commission, in one of its Ad hoc Committee on Housing and Residential Care Services, has recommended the continuum of residential services to start from C&A level in 2000. We agree with this direction and thus in the long run, we opine that the care-and-attention homes should also be strengthened to take care of the infirm cases as well. It is only within this condition that the ideal of "continuum of care" can be achieved.

4. Phasing out of Home for the Aged (HFA)

- 4.1 If we are working towards the continuum of care in residential services, we agree that such continuum should target at serving those elderly persons with care needs. Historically, HFA served the functions to resolve the social and housing needs of the elderly persons without impairment. ***As there are now alternatives available for them to choose the Housing for the Senior Citizens, we agree with the objective to phase out the Home for the Aged.***
- 4.2 Indeed, the NGOs have been trying hard to facilitate the conversion of their HFA into C&A homes in recent years. However, the Audit's recommendation to transfer the existing HFA residents to C&A homes is not desirable as relocation may affect the health of the elderly persons. Instead, these HFA should either be converted or be given supplements to provide care at higher levels. This follows the whole concept of "continuum of care".

5. Provision of care-and-attention (C&A) places

- 5.1 The Audit has rightly pointed out that the current standards are different between the subvented C&A places and the bought places under the BPS/EBPS. They also suggested to reduce the disparity by improving the quality of the BPS/EBPS (2.18). ***We support the Audit's recommendation and agree that the Government should upgrade the level of service in the bought places to a desirable level.***

6. Government's financing of subsidized residential services for the elderly

6.1 Unit cost calculation for different levels of care

6.1.1 We note that the Audit has recommended different unit costs for C&A, nursing home and infirmary cases. ***We fully support this view as the operating costs of different levels of care do vary according to the care required.***

6.1.2 However, we are a bit confused about the figures. The Director of Social Welfare has mentioned in a briefing held in July, 2001 that the unit cost of subvented C&A homes under Lump Sum Grant is \$6958 instead of \$8918, as quoted in the report. We also found in the Controlling Officers' Report (2002) that the unit cost of a C&A place for 2000-01 is \$8708. ***Since different figures have been quoted in different occasions, which might confuse the public, we opine that it is beneficial for the Committee to work out a more accurate unit cost calculation for different levels of care.*** Being the operators of subvented residential services for years, we are ready and feel obliged to assist in the process.

6.2 Adopting the open tender unit cost \$5163 as the benchmark

6.2.1 ***We agree that there should be a unit cost for each level of care, but it is indeed premature at this moment to use this cost as the benchmark of C&A home since the home is the first one allocated through open tendering.*** It has just started to operate for less than 2 months (starting from March, 2002) and is too early to tell whether this cost is accurate and sustainable.

6.2.2 Besides, we have to note that the nature of this open tender home is not exactly the same as the subvented homes. It is operated on a mixed mode where there is a subvented section and a self-financing section. For this first open tender home, the service fee for the subvented place is \$1813 and the operator is given \$5163 subsidy from the SWD, which means an apparent total cost of \$6976. However, the service fee for the self-financing section is \$8,500 to \$12,000. For all the places to be placed under the same roof, they will be operated on the total income. ***Thus, the unit operating cost is likely to be higher than the unit subvention of \$5163.***

6.3 Obtaining all the residential care services through open tendering, both for the new and the existing ones

- 6.3.1 We agree with the Director of Social Welfare's response in the Report that the bulk of the potential cost savings estimated by the Audit would only be achievable by "starting with a clean sheet". *It would also induce unnecessary anxiety on the staffs, as well as the elderly residents and their family members if the existing RCHes have to undergo open tendering again.* Residential care is labour-intensive. Reduction in operating cost is likely to be achieved by cutting wages or lowering the manpower ratio. Care for frail elderly requires specially trained skills and thus, staff stability is critical for good quality of care. The elderly residents would be adversely affected if the operators and the staffs changed frequently.
- 6.3.2 Besides, the comparison between the operating costs of existing homes and the cost of a C&A home obtained through open tendering is not made on a fair basis. For any new home to start operating at this moment, the organization can offer contracts to the employees according to the present salary index whereas the existing homes have to honor the contracts of their staffs employed many years ago when Hong Kong was still enjoying fast economic growth.
- 6.3.3 In fact, the NGOs are already operating on Lump Sum Grant since April, 2000. Besides, they have to further cut down their operating cost to reach the benchmark of mid-point salary by 2005. *Thus, we are expecting a substantial drop in the operating costs of these homes and it is not necessary to adopt another method, such as open tender, to achieve cost-effectiveness.*

6.4 Paying direct subsidies to the elderly

- 6.4.1 *We opine that several pre-requisites are required before paying direct subsidy to the elderly can be implemented successfully, including clear information about the market, quality assurance of the service rendered and sufficient supply of quality service.*
- 6.4.2 At present, we do not have an objective standard of what is a good residential care. If the elderly is given the subsidy, they may not be able to search for the service they need if there is no clear information. They

may be cheated if there is no quality assurance or accreditation system to ensure the quality of service is really up to what the home claimed. SWD has just commissioned an organization to research on an accreditation system, but it will take 2 years to establish the system. Not until these pre-conditions are established, it is not advisable to carry out direct subsidy to the elderly.

- 6.4.3 Case management for the elderly may also be needed to help the elderly in the selection process, especially for those demented and without carers. In so doing, we have to calculate whether the savings would be offset by the additional administrative costs required.

7. Means-testing for RCHES

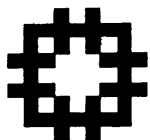
- 7.1 In view of the growing aged population, we agree that the Government should look into the financing of Long Term Care services like RCHES.
- 7.2 If we look closely at the Audit's recommendations, we have to say that the term "means-testing" cannot best describe the desired outcome, which is rather a kind of co-payment for the service users that requires them to pay more based on their affordability. Yet, such kind of arrangement is actually one of the options in the Long Term Care financing. ***Thus, we opine that this should be considered carefully in the whole package of Long Term Care financing, instead of considering the arrangements in a fragmented manner.***
- 7.3 ***The report also noted that those countries having means-test system have different forms of retirement protection and Long Term Care insurance in place.*** Yet, the Mandatory Provident Fund has just started and there is no Long Term Care insurance in Hong Kong. According to the General Household Survey conducted in 2000, the median income of the elderly person is \$2600. It is anticipated that not many of the elderly could afford to pay more. It would be very costly to set up the whole administration system to do the assessment and ends up with very few elderly having the ability to pay more.
- 7.4 The Audit has not spelled out the means-testing criteria, e.g. whether the elderly person's children have to be assessed or not. If this arrangement is made, we worry that some elderly persons would be abandoned by their family members. We have been proud of our family care as a precious tradition. It is not a social cost we can bear if such arrangement leads to the breakdown of family care.

8. Summary

- 8.1 We firmly believe in the ideal of continuum of care to be the policy direction we should achieve in the provision of residential care. Being the service providers, we are ready and be prepared to assist in actualizing such ideal. It is within this context that we are ready to explore different options in providing high quality and yet cost-effective services, e.g. infirmary care, phasing out of HFA, etc.
- 8.2 Within the continuum, there are different levels of care provided. We do treasure this opportunity to work out an accurate unit cost calculation with the Administration, which sets the foundation for an appropriate Long Term Care system.
- 8.3 Long Term Care financing will become a prominent issue in the future when our aged population continues to grow. Whether means-testing, co-payment and voucher system are applicable will require more investigation and analysis.
- 8.4 The above issues have far-reaching impact on the service delivery system, the users and service providers should be involved in the discussion.

May, 2002

END



HONG KONG HOUSING AUTHORITY

Housing Authority Headquarters, 33, Fat Kwong Street, Kowloon, Hong Kong.

香港房屋委員會

九龍佛光街33號房屋委員會總辦事處

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HD/AO/G/5/2

2761 5008

2762 1110

Your Ref.

來件編號

12 July 2002

Public Accounts Committee
(Attn: Miss Sandy CHU)
Legislative Council
Legislative Council Building,
8 Jackson Road,
Central, Hong Kong.

Dear Miss CHU,

**The Director of Audit's Report on the
results of value for money audits (Report No. 38)
Chapter 5: Residential services for the elderly**

Thank you for your letter of 8 July 2002.

As requested by the Public Accounts Committee at its meeting on 4 July, 2002, I enclose the additional information about the decision process of the Housing Authority leading to stop further production of Housing for Senior Citizens at the Appendix. A Chinese version will follow shortly.

Yours sincerely

(Marco WU)

for Director of Housing

Encl.

c.c. Secretary for Health, Welfare and Food)
Secretary for Financial Services and the Treasury)
Director of Social Welfare)
Chief Executive, Hospital Authority) – w/o enc
Director of Audit)

Internal

BD/AM)

AD/AO)

Appendix

Housing Authority's decision in November 2000 to stop further production of Housing for Senior Citizens (HSC)

When the Housing Authority (HA) or Housing Department (HD) was first aware that HSC was not very popular

Having regard to elderly people's special accommodation needs, HA decided in 1985 that it should build HSCs in public housing estates with warden services so that non-government organisations could devote their resources to the care of those elderly who would require more supportive services. The arrangement was supported by the Social Welfare Department.

It was on this mission that the HA had assumed the responsibility of providing HSC to the elderly. HSCs had been all along well received by the public for its provisions including built-in emergency alarm system and 24-hour warden services. When the Elderly Commission visited one of the HSCs in February 1998, they were impressed by the cozy and protected environment of HSCs. There was no sign that HSC was not popular until 1998/1999 when the take up of HSCs began to slacken. As shown in Table 4 of the Audit Report, the vacancy rate was normal as at end March 1997 and even in early 1999 (1.7% and 3.7% respectively) but was relatively higher in 1998 (7.9%). As the take-up rate was improved in 1999 with a vacancy rate of 3.7%, we needed to closely monitor the vacancy position before making any decision that might impact on other elderly services providers.

The relatively higher vacancy rate in 1998 was attributable to the increase not only in the provision of hostel type HSCs with improved facilities but also the supply of self-contained small flats for the elderly. With a wider choice of housing types available, HSCs especially those without ensuite bathrooms were becoming less attractive.

We would like to point out that apart from the 7.9% vacant HSCs, the remaining 92.1% of the HSCs that were occupied in 1998, were maintained in good conditions with elderly people happily living there. They enjoyed very much the common facilities and activities organized for them e.g. television and other entertainment programmes, reading materials, chess playing and other social as well as healthy-aging activities. More importantly, they felt secure and safe with the 24-hour warden services provided therein.

Whether HD had adopted any measures to reduce the planned production of HSC units and, if so, what the measures were

We reviewed our housing provision and design regularly, taking into account the demand and changing needs of elderly people. The Committee may wish to note that the HA introduced HSC to provide housing with warden services for able-bodied elderly so that the non-government organisations could devote their resources to accommodate elderly with impairments in residential care homes. As reduction in HSC might have impacts on other elderly policies and service provisions, we considered it necessary to examine the issue together with the provision of other services for the elderly. We therefore held a series of consultations with the then Health and Welfare Bureau and its departments and at the same time decided to make an overall review of our existing elderly housing provision and strategies to co-ordinate the Government's pledge of "aging in place" and "continuum of care". It was in this context that we commissioned a consultancy study.

The HA decided to stop further production of HSCs in November 2000 having regard to the elderly people's preference for self-contained small flats. However, there was a need to maintain the existing HSCs and to allow the then on-going construction programme to continue so that elderly applicants could have a choice between self-contained small flats and the HSCs with warden services depending on their individual needs.

The dates and outcome of HA's discussions on the issue, the justifications for the decision and copies of relevant documents

According to one of the findings of the consultancy study, flats with shared facilities are less popular among the elderly tenants. The Strategic Planning Committee of the HA on 30 November 2000 endorsed, among other initiatives, to discontinue further production of shared-facilities HSC but concentrating more on building self-contained small flats on elderly housing having regard to the elderly's preference. Accordingly, the Elderly Commission was also informed of and supportive to this new development in February 2001. A copy of the relevant papers **SPC 75/2000** and **EC/I/1-01** and the minutes of discussions are enclosed.

Information on the last batch of new HSC units, including target completion dates, the number of units, their locations, the timetable for allocation and the actions taken to promote these new units

The information on the last batch of new HSC units is as follows :

	District	Estate	No. of Units	Target Completion Date
Extended -Urban	Tsuen Wan	Wah Lai	152) 1 August 2002
	Ma On Shan	Chung On	156	
Urban	Cheung Sha Wan	Fu Cheong	131	
	Total		439	

Time-table for allocation :

All these units will be offered to eligible single persons on the Waiting List (WL) with priority given to the elderly. We anticipate that all 439 units will be offered to the elderly in the first round of allocation by end September 2002. Those units rejected by the elderly will be offered to non-elderly applicants in October 2002.

Actions taken to promote these new units :

We shall take the following publicity measures :

- Posting up notices in Wah Lai, Chung On, Fu Cheong and neighbouring estates in late July 2002 to publicize that there will be new HSC units available for letting so that local residents with elderly relatives who would like to live there may call our hot-line to indicate their interest.
- To ask the elderly applicants during vetting interviews whether they would like to be rehoused to HSC units and note down their preference. Allocation will be made according to their preferred districts, subject to availability of resources.
- To arrange group visits for the elderly applicants to see the environment and facilities provided in the three new HSCs.

- To show the video on HSCs to elderly applicants at the time when they attend interviews in our Customer Service Centre.

Consultancy study on Provision of Housing and Care Services for the Elderly in Public Housing Estates

This study was a comprehensive review on HA's existing provision of housing and support services for the elderly in public rental housing of which HSC was only one of options. The primary aim was to explore the feasibility of developing an integrated mode of service delivery to achieve the two central themes advocated by the Elderly Commission, i.e. "aging in place" and "continuum of care". International references were made in the study. The new concept of Universal Design was also studied in depth. The specific objectives and tasks of the consultancy study were detailed in the enclosed full report ^{Note}. The consultancy fee was HK\$457,680. It was awarded under a competitive tender exercise.

^{Note}: There is no Chinese version of the main consultancy report.

****Note by Clerk, PAC:** Papers SPC 75/2000 and EC/I/1-01, minutes of discussions and the final report of the consultancy study on "Provision of Housing and Care Services for the Elderly in Public Housing Estates" not attached.*



Our ref. HD/AO/G/5/2
Tel. No. 2761 5131
Fax No. 2761 7445

Your Ref. CB(3)/PAC/R38

11 December 2002

The Clerk (Attn.: Ms. Miranda HON)
Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central, Hong Kong.

BY POST & BY FAX

Dear Ms. HON,

**The Director of Audit's Report
on the results of value money audits (Report No. 38)**

Chapter 5 : Residential services for the elderly

Thank you for your letter of 26 July 2002. As requested, the latest statistics about the letting of Housing for Senior Citizen units as at end November 2002 are attached for Public Accounts Committee's consideration.

Please let me know if I can be of further assistance.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Wendy Cheung'.

(Ms Wendy Cheung)
for Director of Housing

Encl.

c.c. Director of Audit
HD 111

Latest Statistics on Letting of Housing for Senior Citizen Units (as at 30 November 2002)

(a) Total number of vacant Housing for Senior Citizen units (including the last batch completed in August 2002)

The total number of vacant Housing for Senior Citizen units including the last 3 projects completed in July and August 2002 in Fu Cheong, Wah Lai and Chung On Estates is 144 units, with a vacancy rate of 1.4%.

To expedite the letting of Housing for Senior Citizen units, Housing Department has pooled 862 such units in all districts for flat selection by eligible Waiting List applicants in the last Express Flat Allocation Scheme just completed in October 2002. Out of the 862 flats pooled, 801 units were selected by the applicants.

(b) Among the last batch of the 439 new Housing for Senior Citizen units, the respective numbers of those that have been allocated to the elderly and non-elderly applicants, and the number that remains vacant

The letting position of the last batch of the 439 new Housing for Senior Citizen units is as follows -

District		Estate	Number of New Units	Number of Units let to elderly	Number of Units let to non-elderly	Number of Units yet to be Let		
						Number of Units Under Offer		Number of Vacant Units
						To elderly applicants	To non-elderly applicants	
Urban	Cheung Sha Wan	Fu Cheong	131	61	2	66	0	2
Extended Urban	Tsuen Wan	Wah Lai	152	11	15	42	83	1
	Ma On Shan	Chung On	156	5	5	1	143	2*
Total			439	77	22	109	226	5

Note : * 2 flats are withheld from letting due to improvement works being carried out.



中華人民共和國香港特別行政區政府總部衛生福利及食物局
Health, Welfare and Food Bureau
Government Secretariat, Government of the Hong Kong Special Administrative Region
The People's Republic of China

Our Ref. : HW/ES/3/24 Pt.2 (01)
Your Ref CB(3)/PAC/R38

Tel No. : 2973 8200
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16 July 2002

Clerk to Public Accounts Committee
LegCo Secretariat
(Attn : Miss Sandy Chu)
Legislative Council Building
8 Jackson Road
Central

BY FAX : 2537 1204

Dear Miss Chu,

**The Director of Audit's Report on the
results of value for money audits (Report No. 38)**

Chapter 5: Residential services for the elderly

Thank you for your letter of 9 July seeking additional information further to the hearing on 4 July.

At the hearing I reiterated that although we have not abolished the planning ratio of 5 infirmary beds per 1,000 population aged 65 or above set in 1981, we consider that this ratio which was set over twenty years ago is no longer appropriate and that we should review the planning basis for the provision of infirmary beds.

As explained in my letter of 24 May, there have been significant developments in the provision of medical and care services for frail elders. The Hospital Authority, which was established in 1991, conducted reviews at three to five year intervals on the requirement of different types of hospital beds, including infirmary beds, on a territory-wide basis. In this context we set a target in 1997/98 to provide an additional 1,000 infirmary beds in the next

five years. We are on schedule in meeting this target. By March 2003, the ratio of infirmary beds per 1,000 elders will be increased to 4.

As for indicators for the provision of residential services for the elderly, every year we set out our initiatives and targets for the coming year in the policy address booklet on 'Care for Elders'. In addition to residential services, the 2001 policy address booklet covers other services for elders, such as financial support, housing, community care and support, active and healthy ageing and support for vulnerable elders.


In addition, we have set out a work plan for the next 12 months as follows:

- (a) We will formulate and implement a plan to phase out self-care hostels and homes for the aged, and to better meet the needs of these elders by matching them promptly to appropriate services such as community care and support services and housing assistance. The plan has been endorsed by the Elderly Commission and will start later this year;
- (b) We will implement a central registration system for subsidized long term care services, i.e. both community and residential care services currently provided under the social welfare system. This will obviate the need for elders to waitlist on different queues, sometimes managed by different agencies, for different services. Appropriate services will be assigned to elders in accordance with the care needs as assessed by the standardized care need assessment tool which we introduced in November 2000. We will complete this task within one year;
- (c) To better address the needs of both healthy and frail elders, as well as carers and the community at large, we plan to rationalize and re-engineer a wide spectrum of existing community care and support services in light of the outcome of a consultancy study on the provision of community care and support services conducted in 2000. These include home help teams, home care and meal teams, social centers and multi-service centers. We briefed the Legislative Council Panel on Welfare Services at its meeting on 8 July 2002 and according to the proposed work plan, rationalisation will start to

take place from March 2003;

- (d) To achieve continuum of care in residential care, all contracted homes put out for open tendering will include such a requirement. We also plan to provide additional places for elders of nursing home frailty in new contracted homes on admission to help reduce waiting time for nursing home. We have invited tenders for three homes on 12 July 2002 and each of these will contain a portion of subsidised places for elders of nursing home frailty; and
- (e) As regards the provision of infirmary beds, we will conduct a review which will cover the basis of planning, the changing needs for infirmary beds, and the role of the Hospital Authority in the provision of such beds. We will also examine the feasibility of providing infirmary care in a non-hospital setting to achieve cost-effectiveness and continuum of care for elders in the long term care system.

Yours sincerely,



(Dr E K Yeoh)

Secretary for Health, Welfare and Food

c.c. Secretary for the Financial Services and the Treasury
Director of Social Welfare
Director of Housing
Director of Health
Chief Executive, Hospital Authority
Director of Audit



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本署檔號 Our Ref. : UB/PAC/VFM/38-3

來函檔號 Your Ref. : CB(3)/PAC/R38

5 August 2002

Clerk, Public Accounts Committee
(Attn: Ms Miranda HON)
Legislative Council Building
8 Jackson Road, Central
Hong Kong

Dear Miss HON,

**The Director of Audit's Report on the
results of value for money audits (Report No. 38)**

Chapter 5: Residential services for the elderly

Thank you for your letter of 22 July 2002. My comments are given below.

**Your question (a): Comments on the ratio of four infirmary beds
per 1,000 elderly persons by March 2003, as quoted in the
Secretary for Health, Welfare and Food's letter of 16 July 2002**

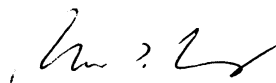
In his letter of 24 May 2002, the Secretary for Health, Welfare and Food informed the Public Accounts Committee that the planning ratio of five infirmary beds per 1,000 elderly persons aged 65 or over was adopted by the Medical Development Advisory Committee (MDAC) of the previous Medical and Health Department in 1981. Audit subsequently requested the Health, Welfare and Food Bureau for a copy of the related MDAC paper, which had not been made available to Audit during the audit review. According to the MDAC Paper No. 15-1980/81, the planning ratio was set in 1981 in the context of the hospitalised patients. On this basis, the estimated ratio of four infirmary beds per 1,000 elderly persons by March 2003, as quoted in the Secretary for Health, Welfare and Food's letter of 16 July 2002, would appear to be acceptable (see para. 2(a) in Appendix). However, it should be noted that applicants on the Central Infirmary Waiting List (CIWL) would need to wait for about 39 months before being admitted to infirmaries.

Your question (b): If only the infirmary beds designated for CIWL are taken into account, by March 2003, what the ratio of infirmary beds per 1,000 elderly persons will be

If only the infirmary beds designated for CIWL are taken into account, by March 2003, the ratio of infirmary beds per 1,000 elderly persons aged 65 or over will be 1.5 (see para. 2 (b) in Appendix).

A Chinese translation of this letter will be forwarded to you shortly.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David M T Leung', with a stylized flourish at the end.

(David M T LEUNG)
for Director of Audit

Appendix

Estimated ratios of infirmary beds per 1,000 elderly persons by March 2003

1. A target to provide 1,000 infirmary beds in the next 5 years was set in 1997-98 (see para. 7 of the Secretary for Health, Welfare and Food's letter of 24 May 2002). Of these 1,000 additional infirmary beds, 338 were designated for CIWL applicants (see para. 1(c) of the Secretary for Health, Welfare and Food's letter of 28 June 2002). Accordingly, the estimated numbers of infirmary beds available by March 2003 would be as follows:

	Number of infirmary beds for accommodating persons from the CIWL	Number of infirmary beds for accommodating patients transferred from general and acute wards	Total number of infirmary beds
	(a)	(b)	(c) = (a) + (b)
As at 31 March 1998	896	1,185	2,081
To be provided by March 2003	338	662	1,000
Available by March 2003	<u>1,234</u>	<u>1,847</u>	<u>3,081</u>

2. Based on the Census & Statistics Department's projected figure of population aged 65 or over of 796,800, by March 2003, the ratio per 1,000 elderly persons of infirmary beds for:

- (a) accommodating persons from the CIWL and patients transferred from general and acute wards would be **3.9** ($3,081 \div 796,800 \times 1,000$); and
- (b) accommodating persons from the CIWL would be **1.5** ($1,234 \div 796,800 \times 1,000$).



中華人民共和國香港特別行政區政府總部衛生福利及食物局
Health, Welfare and Food Bureau
Government Secretariat, Government of the Hong Kong Special Administrative Region
The People's Republic of China

Our Ref. : HW/ES/3/24 Pt. 3(01)
Your Ref : CB(3)/PAC/R38

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Clerk to Public Accounts Committee
LegCo Secretariat
(Attn : Ms Miranda HON)
Legislative Council Building
8 Jackson Road, Central
Hong Kong

24 October 2002

Dear Ms Hon,

**The Director of Audit's Report on the
results of value for money audits (Report No. 38)**

Chapter 5: Residential services for the elderly

Thank you for your letter of 22 July concerning the provision of infirmary care supplement (ICS). We have carefully considered the issue raised in your letter in the context of the resource allocation exercise, hence the delay in replying.

ICS has been introduced as a top-up provision in subvented care and attention (C&A) homes to take care of elders assessed to require infirmary care. ICS enables these elders to remain in the same home while receiving more intensive care. As more and more elders living in C&A homes are assessed to require infirmary level care and the total number of such elders often exceed the number of supplements available, the practice adopted in recent years is to allocate ICS on a pro rata basis to the homes concerned. For instance, for the year 2002-03, a total of 832 elders are assessed to require infirmary level care in various homes. However, given

the funding available at \$29.75 million, which is equivalent to about 476 ICS (i.e. \$62,508 per case per year at current prices to top up the government's subvention to C & A homes), ICS funding is allocated on a pro-rata basis to 56 subvented C&A homes with elders at infirmary care level. These elders may continue to waitlist at the Central Infirmary Waiting List for admission to infirmary beds under the Hospital Authority.

No additional funding has been earmarked in the current financial year for ICS. Given the fiscal constraint, we do not envisage additional funding for ICS in the coming financial year. As stated in my letter of 16 July, we will conduct a comprehensive review on the provision of infirmary care in the next 12 months with a view to better addressing the needs of elders assessed to require infirmary level care in the current economic environment. In the meantime, the Social Welfare Department will review the existing arrangements for allocation of ICS to ensure that subsidised residential care homes looking after frail elders would have an equitable share of the resources available.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Yeoh', written in a cursive style.

(Dr E K Yeoh)
Secretary for Health, Welfare and Food

c.c. Chief Executive, Hospital Authority
Director of Social Welfare
Director of Audit



中華人民共和國香港特別行政區政府總部衛生福利及食物局
Health, Welfare and Food Bureau
Government Secretariat, Government of the Hong Kong Special Administrative Region
The People's Republic of China

Our Ref. : HWF/ES/3/24 Pt. 3(01)
Your Ref. : CB(3)/PAC/R38

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20 January 2003

Clerk to Public Accounts Committee
LegCo Secretariat
(Attn : Miss Sandy Chu)
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Miss Chu,

**The Director of Audit's Report on the
Results of value for money audits (Report No. 38)**

Chapter 5: Residential services for the elderly

I refer to your letter of 12 December 2002 seeking additional information on a number of issues. I append below my response in sequence:

(a) Item (a)

As stated in my letter of 24 May 2002, we are examining various options that help to target resources at elders with genuine needs, including to develop a fee assistance scheme to allow elders to have more choices and flexibility in using

residential care services. We are at an early stage of our deliberation. When we have formulated proposals, we will consult relevant parties, including the Legislative Council.

(b) Item (b)(i)

Since the PAC public hearing, the Social Welfare Department (SWD) has taken action to draw up a detailed plan to phase out self-care hostels and homes for the aged (H/As) and is now putting it in place. Since 1 January 2003, SWD has ceased to put elders approaching its offices for such services on a waiting list for admission to self-care hostels and H/As. Instead, caseworkers are required to assess their needs and refer for appropriate services immediately. To facilitate service referral, SWD has published a guidebook providing comprehensive information on the range of financial, housing, community care and support services available to elders, copy attached. For the about 5,600 elders currently on the self-care hostels and H/A waiting list, caseworkers will review each and every of these cases over the next six months with a view to ascertaining the genuine welfare needs of the applicants and offering them earlier community care and support services and housing assistance as appropriate. SWD will shortly write to all these elders on the waiting list providing them with a copy of the above-mentioned guidebook for reference.

(c) Item (b)(ii)

SWD is in the process of upgrading its computer system to facilitate implementation of a centralised registration system of both residential and community services. We aim to put the new system in place in the latter half of 2003.

(d) Item (b)(iii)

The re-engineering exercise consists of two parts, namely –

- (i) Revamping of centre-based services in which existing social centres for the elderly (S/Es) and multi-service centres for the elderly (M/Es) will be upgraded to neighbourhood elderly centres (NECs) and district elderly community centres (DECCs) respectively to provide expanded functions to elders and the community; and
- (ii) Upgrading of home-based services in which existing home help teams (HHTs) will be upgraded to integrated home care services teams (IHCSTs) to provide enhanced personal and nursing care services to frail elders.

We have achieved satisfactory outcome in the re-engineering exercise. The revamped centre-based and upgraded home-based services will commence in phases within 2003-04.

(e) Item (b)(iv)

For the three contract residential care homes for the elderly (RCHEs) which we invited tenders in July 2002 providing a total of over 280 subsidised places, about half of these places are designated for elders of nursing home frailty. We will continue to pursue the concept of continuum of care in government supplied RCHE premises put out for tender in future.

(f) Items (b)(v) and (c)

As explained in my letter of 16 July 2002, we will review the provision of infirmary beds and examine the feasibility of providing infirmary care in a non-hospital setting to achieve cost-effectiveness and continuum of care for elders in the long term care system. The transfer of infirmary care from hospital to non-hospital setting is a complex issue which requires detailed study. Not all infirm patients can be transferred from the hospital to a non-hospital setting. In the context of the review, we are examining with the Hospital Authority, SWD and Department of Health the criteria to identify elders who need to be taken care of in the hospital setting. In the meantime, SWD has taken steps to extend the allocation of Infirmary Care Supplement (ICS) to frail elders receiving subsidized service in private RCHes under the Enhanced Bought Place Scheme. The revised system ensures more equitable distribution of the limited resources and will also enable us to gain a better idea of the total number of elders requiring infirmary care. This information will be useful for us in our further deliberation of the issue.

Yours sincerely,



(Dr E K Yeoh)

Secretary for Health, Welfare and Food

c.c. Director of Social Welfare - w/o encl.
Chief Executive, Hospital Authority
Director of Audit

**Note by Clerk, PAC: Guidebook not attached.*

**Supplementary Information of
the Customs and Excise Department
Regarding the Recommendations
in Chapter 2 of the Report No. 39 of Director of Audit on
“The Customs and Excise Department’s efforts
to protect government revenue from dutiable commodities”**

Introduction

First of all, we welcome the Director of Audit’s recommendations on “Customs and Excise Department(C&ED)’s efforts to protect government revenue from dutiable commodities” in Chapter 2 of the Report No.39. We agree with most of the recommendations and have implemented part of them. Certainly, when implementing the new measures recommended, we have to take into account whether the new measures can facilitate trade and whether the C&ED has sufficient resources and enforcement powers to do so.

2. This paper provides supplementary information regarding the Director of Audit’s major recommendations to the C&ED. It is hoped that this will facilitate the Public Accounts Committee in the discussion of the recommendations. We will elaborate details of the C&ED’s efforts to make preparation for implementing the “Open Bond System”(OBS), preventing abuses of cigarette duty-free concessions, tackling of cigarette smuggling, auditing oil companies and combating illegal vehicle refuelling activities, etc. It also foretells measures to be implemented by the C&ED in response to the Director of

Audit's recommendations.

Open Bond System (OBS)

3. We agree with the Director of Audit's recommendations on the need to complete all the major tasks before implementing the OBS. The C&ED will complete all tasks according to the planned schedule before implementation.

4. The OBS is not a new practice in Hong Kong and is currently adopted in the supervision of oil depots and breweries. Our present measure is merely an extension of the system to the bonded warehouses of cigarettes and liquor. The decision on the implementation of the new system is made after thorough studies and tests as well as extensive consultations with the stakeholders of the industries.

5. A consultancy was commissioned to conduct an in-depth study on the feasibility of OBS in 1999, and the study confirmed the feasibility and benefits of its full implementation in Hong Kong. Under the system, traders can save the cost of employing Customs officers to supervise the bonded warehouses as well as loading and unloading operations, and the industry may thus reduce the annual operating cost by about \$70 million. The industry can also flexibly arrange bonded warehouse operations. This will facilitate trade, hence enhancing Hong Kong's competitiveness in the international market.

6. The C&ED and the industry are ready for the implementation of the OBS. We, first of all, conducted a pilot scheme in five bonded warehouses from January to June 2001. The results indicated that feedback from the participants on the new system was positive, and that no anomaly had been observed in the amount of duty collected from the participants by the C&ED.

7. As regards consultation with the industry, we have organized a series of seminars to introduce the mode of operation of the new system. Views from the industry indicate that they are very supportive of the implementation of the OBS. We have also sent staff to countries which have already adopted open bond systems, such as the UK, Australia and Singapore, etc., to draw on their successful experience in legislation and law enforcement. Professional accounting officers have been deployed to assist in formulating operational procedures and auditing approaches, to provide training to other staff members and to take part in planning the future management of the OBS.

8. In approving an OBS licence, the C&ED will consider prudently the background and financial status of applicants and assess their system and ability in stock control, record keeping and security management etc, in order to make a comprehensive assessment on the risks involved and plan the corresponding monitoring measures.

9. Under the OBS, the C&ED will conduct monthly blitz checks on the goods and accounts of every bonded warehouse to monitor whether warehouse licensees have complied with the legislation and licence conditions. Besides, the C&ED will conduct a comprehensive audit on the stocks and the accounting system of every bonded warehouse at least once a year, and carry out detailed checks on the regular returns submitted by warehouse licensees. Should irregularities or non-compliance with licence conditions be detected, the licensees concerned will be fined or prosecuted.

10. As regards the level of supervision on the loading and unloading of dutiable goods, we have noticed that other countries that have implemented the system have not fixed any supervision percentage, but adjust the level of supervision in accordance with risk factors. However, for prudence's sake, we will conduct 10% supervision on these operations at the initial implementation stage of the OBS. Besides, subject to needs and availability of resources, we will increase the percentage of supervision against certain high-risk companies and goods.

11. On 14 January 2002, the Administration briefed the LegCo Panel on Commerce and Industry on the Dutiable Commodities (Amendment) Bill 2002. On 30 January, the Bill was introduced into the Legislative Council. The OBS will be implemented subject to the passage of the Bill. We will complete all preparation work according to schedule before the formal implementation of the OBS. The preparation work

concerned will be reported in detail in the Bills Committee. We will conduct three reviews¹ shortly after the implementation of the new system to evaluate the effectiveness of the system and to recommend improvement measures. We will closely monitor the development of the system, particularly at the initial implementation stage of the system, and the movement of dutiable goods, to ensure there is no revenue loss.

Cigarette Duty-free Concessions

12. In response to the Director of Audit's recommendations, we are now conducting a comprehensive review of our various operational procedures to prevent the abuses of cigarette duty-free concessions.

The Sales Activities of Duty-Free Shops

13. The provision for duty-free shops to complete each transaction in five seconds, as mentioned in the Audit Report, is not a condition of licence imposed on duty-free shops by the C&ED. It is rather a requirement imposed on duty-free shops by the KCRC to maintain the smooth flow of passengers. The C&ED is conducting a comprehensive review of all the conditions of licence for duty-free shops. In renewing licence

¹ The ICAC will conduct a review three months after the implementation of the new system. The C&ED will conduct two reviews, the first one will take place three months after the implementation of the new system, while the second one will take place three months after the implementation of improvement measures suggested in the first review.

for a duty-free shop, we will update the licence conditions. By imposing new licence conditions on the duty-free shops, the C&ED hopes that this can help protect Government revenue on the one hand, and does not cause obstruction of passenger flow on the other. Should duty-free shops still find it difficult to complete a transaction in five seconds under the new licence conditions, the C&ED will liaise with the duty-free shops and the KCRC to consider reviewing this requirement.

14. Recently, we also met with the licensees of the duty-free shops and remind them to comply with the prevailing conditions of licence as far as possible, in particular, not to sell to passengers quantities of cigarettes which exceed their entitled duty-free concession. Customs supervision will also be strengthened in this respect.

Percentage of travellers intercepted for checking by Customs officers

15. Currently, there are around 233 000 incoming travellers passing through various control points and the airport each day. We believe that most of the travellers are law-abiding. In order to maintain a smooth passenger flow, the C&ED, like other Customs administrations, adopts risk management in the checking of travellers. Customs officers have various duties to perform in checking inbound travellers. Apart from prevention of smuggling of dutiable commodities, they also have to intercept dangerous drugs, firearms and ammunition, counterfeit and pirated goods, endangered species of plants and animals and

other contraband, etc.

16. In recent years, the number of inbound travellers passing through the Lo Wu Control Point has been increasing rapidly. In 1996, there were an average of 70 000 incoming travellers each day and to date, the number has surged to almost 130 000 (representing an increase of 86%). In other words, there are at present about 7 000 incoming travellers per hour. Relative to such a large passenger flow, the C&ED's manpower on duty in Lo Wu cannot be considered strong. In each shift, there are in general about 10 Customs officers working at examination counters in the Arrival Hall. When OBS is rolled out early next year, we will consider deploying some of the manpower saved to the Lo Wu Control Point to strengthen checking of travellers.

17. In order to handle the huge daily passenger flow with the limited manpower, the C&ED has already adopted the concept of risk management in processing cross-boundary travellers at the Lo Wu Control Point. Under the risk management concept, Customs officers focus on the analysis of intelligence. By using risk analysis skills, they identify and intercept smugglers and thus enhance the hit rate and enforcement effectiveness. Customs officers conduct risk analysis and assessment on cross-boundary travellers before they get through the control point, and then intercept the suspicious travellers.

18. To step up enforcement against smuggling activities at

various boundary control points, a special unit under the Control Points Command was established in March 2002 to support frontline officers in checking travellers. Between January and October 2002, the following cases were effected by the Lo Wu Control Point alone:

	No. of Case	No. of Arrest	Seizure
Cigarettes Cases	300	300	569 170 sticks of cigarettes
Drug Cases	162	165	8 685 grammes and 33 390 tablets of various drugs
Piracy Cases	59	58	41 276 pirated compact discs
Counterfeit Cases	43	44	Counterfeit watches, handbags and portable phones, etc., 10 063 pieces in total
Other Cases	1 190	1 190	Such as firecrackers, extendible batons and endangered species of plants and animals, etc.

19. It is mentioned in Appendix F in Chapter 2 of the Report that in the different periods of the fourteen days between 1 June and 21 July 2002, 32 incoming travellers who had brought in cigarettes slightly in excess of the duty-free concession were

not intercepted for Customs checking at Lo Wu Control Point. It is worth to mention that within these fourteen days, the C&ED had detected 82 cases involving dangerous drugs, pirated goods, counterfeit goods and cigarettes at Lo Wu Control Point. Besides, the C&ED had handled 659 cases relating to abandonment or duty payment of dutiable cigarettes and liquors exceeding the duty-free concession.

20. As regards checking of travellers, baggage inspection at Customs examination counters is in fact just part of the Customs duties. The percentage of travellers intercepted for checking (0.88%), as observed by the Director of Audit, is at variance with the C&ED's internal performance data (10%). The main reason is that the C&ED's performance data include not only the number of travellers intercepted for baggage inspection at Customs examination counters, but also the data drawn from travellers and baggage processing in the following ways:

- verbal enquiries
- dog-sniffing check on travellers
- checking of travellers and baggage by using ion-scanners
- checking of travellers by using metal detectors
- scanning of baggage by using X-ray scanners
- personal search
- intensive surveillance on travellers

21. We agree with the audit recommendation on improving

the data record system of passenger checking. We have issued clear guidelines instructing frontline officers to follow the procedures for collecting, recording and validating data so as to classify the performance data more clearly.

22. We also agree with the Director of Audit that more Customs checks can increase the chance of detecting passengers' abuses of duty-free concessions. However, taking into account C&ED's limited manpower in Lo Wu Control Point and the huge daily inflow of inbound passengers, we can only strike a balance in the real situation. If the manpower and the passenger flow permit, we will increase random checks on inbound passengers as far as possible.

The 24-hour rule for duty-free concessions

23. Permitting inbound passengers to bring in duty-free cigarettes is in conformity with the existing international practice. The 24-hour rule for duty-free concessions was introduced in 1991 mainly to prevent "itinerant traders" from bringing back a large number of duty-free cigarettes from the Mainland to Hong Kong several times a day, taking advantage of the convenience of the geographical connection between Hong Kong and the Mainland.

24. The 24-hour rule for duty-free concessions only applies to Hong Kong residents returning to Hong Kong.

When a Hong Kong resident is found bringing in duty-free cigarettes on return to Hong Kong, Customs officers will first verbally enquire the passenger concerned whether he has been away from Hong Kong for more than 24 hours. If Customs officers found the passenger suspicious, they will verify with the Immigration Department to confirm whether the passenger concerned has been away from Hong Kong for more than 24 hours.

25. At the time when there was still a chop affixed on Home Visit Permits, we could check the chop on the Home Visit Permits to identify the departure date of a passenger. Since the cessation of stamping the Home Visit Permits, the C&ED has internally deliberated various alternatives to enforce the 24-hour rule. Having considered the feasibility of various arrangements, we find that the most effective way is to make direct verification with the Immigration Department to confirm the departure time of a passenger.

26. The C&ED has maintained close cooperation with the Immigration Department. At present, the C&ED can immediately verify the departure time of a passenger with the Immigration Department when necessary. Furthermore, the C&ED is making arrangement to install computer terminals in three control points (including Lo Wu), which will facilitate our speedy verification with the Immigration Department on the departure time of a passenger. The aforesaid procedure is for crime prevention and duty collection and therefore complies

with the Personal Data (Privacy) Ordinance.

Baggage Examination Procedures

27. Under Section 34A of the Dutiable Commodities Ordinance, a traveller shall declare to the Customs officer the quantity of dutiable goods he possesses which is in excess of the duty-free concession. In practice, should a traveller make a complete declaration upon enquiries by the Customs officer, the traveller will be allowed under the legislation to pay the duty on the dutiable goods in excess of the duty-free concession or to abandon the goods.

28. To prevent abuses of the duty-free concessions by travellers bringing excessive duty-free cigarettes into Hong Kong, the C&ED regularly carries out a special operation namely the “Yellow Bird Operation”. In the operation, plain-clothes officers will be deployed to conduct surveillance in the vicinities of the Lo Wu Control Point and at railway station concourse. Suspicious travellers will be searched. Travellers found to be in possession of excessive undeclared dutiable goods are subject to a fine or prosecution².

29. Recently, the C&ED has introduced a new Customs clearance mode. The pilot run of “Customs Clearance Cubicle”

² C&ED believes the existing penalties have sufficient deterrent effect. Under the Dutiable Commodities Ordinance, any person in possession of cigarettes in excess of the duty-free concession is subject to a maximum fine of HK\$1,000,000 and two years of imprisonment. Under the Compounding Scheme, the fine is HK\$2,000 with an addition of 5 times the duty payable on the dutiable goods concerned.

has been launched at the Macau Ferry Terminal. Indeed, we have already incorporated the subject of prevention of abuses of cigarette duty-free concessions by inbound travellers into our study and assessment of the “New Customs Clearance Mode”. It is hoped that we can identify a feasible measure to strike a balance between law enforcement and travellers facilitation.

Combating Cigarette Smuggling

30. The Director of Audit has recommended that the C&ED should make continued efforts to improve monitoring and measurement of C&ED’s performance in tackling cigarette smuggling, closely monitor the impact of the recent developments on smuggling activities and review the resources to be deployed to anti-smuggling activities. We generally agree with the Director of Audit’s recommendations.

31. The C&ED has all along spared no efforts in combating cigarette smuggling. From last year onwards, we have achieved remarkable results in combating cigarette smuggling. From January to October 2002, the C&ED detected 2 068 cases involving illicit cigarettes and seized 140 million sticks of illicit cigarettes, the duty potential of which amounted to \$110 million. (See Appendix I)

32. In hitting smuggling syndicates, the C&ED will continue to strengthen the collection of intelligence and

cooperation with other international enforcement agencies, prosecute members of cigarette-smuggling syndicate and pursue the forfeiture of crime proceeds under the Organized and Serious Crimes Ordinance, and keep a close surveillance on smugglers.

33. Against illicit sales of cigarettes at street level, the C&ED will conduct intensive raiding operations, frequently carry out territory-wide large-scale operations, arrest and prosecute illicit cigarettes buyers and sellers, launch publicity campaigns to educate the public that purchase of illicit cigarettes is an unlawful act, as well as encourage the public to report illicit cigarette activities through the reward schemes.

34. We will review the performance indicators and include relevant performance indicators in the Controlling Officer's Report to effectively reflect the C&ED's performance in combating cigarette smuggling.

35. We will also closely monitor the latest trend of cigarette smuggling. We would flexibly deploy manpower to tackle the problem of cigarette smuggling which include regular deployment of officers of other enforcement units within the department to take part in territory-wide operations against peddling of illicit cigarettes.

Customs Audit on Oil Companies

36. We agree in principle with the Director of Audit's recommendations concerning Customs audit on oil companies.

37. The C&ED is currently adopting the OBS to control local oil companies and oil depots, as well as a transaction-based approach to check the oil companies' compliance with legislative requirements in respect of the import, export, release, storage, sale and provision of hydrocarbon oil.

38. We believe that the transaction-based approach to audit oil companies is simple and easy to perform. However, we also agree with the opinions of the Director of Audit. By comparison, the system-based audits³ are more effective in achieving the objective of Customs audits of checking the oil companies' compliance with legislative requirements.

39. The control of hydrocarbon oil is rather complicated in that it touches on various arrangement on exemption and refund of duties, for example, control of industrial diesel oil, blending and treatment of hydrocarbon oil at oil depots, and sale of duty-free oils to consulates, diplomatic representatives and the disabled, etc. Besides, the operation systems and structures of oil companies and oil depots are unique. Therefore, we will

³ In a system-based audit, an auditor must consider the nature of the auditee's business and evaluate the systems of internal control to determine the nature, extent and timing of the audit procedures to be used.

study applying the system-based approach in auditing oil companies after gathering the experience of adopting system-based approach in auditing tobacco and liquor warehouses operated under OBS.

40. If we are to implement the system-based audits to control hydrocarbon oil bonded warehouses, we will, taking into account the audit experience of other customs authorities, devise an audit system which is suitable for auditing local oil companies and assign professional accountants as well as enhance staff training so as to cope with the new control system.

41. The C&ED has implemented all the relevant recommendations of the Director of Audit since August this year to improve Customs audits on oil companies. These include drawing up guidelines / checklists to help the audit team to perform their tasks effectively, requiring the audit team to show clearly in the audit working papers how monthly returns are selected for detailed verification on-site and how different types of fuel oil are selected for stock checks when reporting the progress of the audit tasks, and building in a surprise element in conducting stock checks at oil depots.

Illegal vehicle refuelling activities

42. The Director of Audit has given many specific recommendations concerning actions taken by the C&ED against illegal vehicle refuelling activities. We generally agree

with the recommendations.

43. Due to the price difference between legitimate and illicit fuels, illegal refuelling activities have all along existed. Nevertheless, the C&ED has made remarkable achievements in combating illicit fuels activities over the years⁴. In addition, the Dutiable Commodities Ordinance was amended⁵ in 2000 and 2001, which facilitates the C&ED to adduce evidence for prosecution, and impose heavier penalty on offenders. These measures have stemmed the increase in illicit fuel activities effectively.

44. The C&ED set up the Intelligence and Investigation Branch on 2 July this year to strengthen the collection of intelligence and analysis work, deploy manpower more flexibly and enhance the enforcement capability. With a view to clamping down the illegal fuel activities thoroughly, the Branch has conducted a comprehensive study of illegal fuel activities at the strategic level, and formulated a series of measures against such illegal activities. Apart from taking stringent measures on raiding illegal fuel production plants in the front line, the Intelligence and Investigation Branch has also focused on the analysis of intelligence concerning the source of illicit fuels, operating mode and sales targets so as to formulate target-based

⁴ See Appendix II for enforcement efforts and revenue.

⁵ Maximum penalty for offences relating to marked oils has been increased from \$200,000 to \$1,000,000. Repeated offenders convicted of illicit fuel offences may have their driving licences revoked for specified periods.

enforcement strategies. Furthermore, the Branch has flexibly deployed manpower from different formations to conduct covert surveillance of illegal fuel syndicates, and collaborated with other law enforcement agencies in joint operations.

45. At present, illicit fuel activities involve the following four types of fuels: (1) synthetic motor spirit; (2) detreated oil; (3) marked oil and; and (4) diesel oil smuggled from the Mainland into Hong Kong.

Synthetic Motor Spirit (SMS)

46. “Synthetic motor spirit” refers to the illicit motor spirit formed by blending rubber solvent with chemicals such as toluene or xylene. This kind of motor spirit is locally produced by illegal syndicates at a cost of about \$3 per litre and sold in the black market at about \$6 per litre. At present, the market retail price of duty-paid motor spirit is \$10.72 per litre (including duty). As the SMS is much cheaper than the legitimate fuel, despite the fact that long-time use of SMS has adverse effects on motor engines (according to the finding of a study report of the Consumer Council in Australia), cheaper, older or company vehicles are still observed to be using SMS in the market.

47. To tackle the problem of SMS, we have taken a series of measures to combat the illicit use of SMS at all levels. Apart from monitoring closely the activities of the related illegal

syndicates, the C&ED also initiates vigorous enforcement actions against illicit SMS manufacturing plants and cracks down on illegal filling stations throughout the territory. The achievements of the C&ED in this respect have been frequently reported in the press. Besides, the C&ED has recently drawn up an action plan to strengthen the effectiveness of actions against these activities. The major measures include:

- After seeking cooperation from the oil companies, Customs officers are deployed to oil depots to check the end use of these chemicals;
- If the backgrounds of the purchasers of these chemicals are found to be doubtful, Customs officers will escort the chemicals to the declared destinations from oil depots; and
- Investigation will be carried out on the actual buyers of these chemicals. Enforcement actions will be taken immediately if they are found to be engaged in illegal production of SMS;

48. The above measures have taken effect since the C&ED launched the action plan on 25 November this year. Illegal syndicates no longer dare to make bulk purchase of rubber solvent, toluene and xylene from oil companies. Within a week from 25 November, oil companies only registered a sale of 240,000 litres of such chemicals, representing a substantial decrease when compared with the sales volume of 590,000 litres weekly on average before the implementation of the action plan.

Detreated oil

49. “Detreated oil” refers to marked industrial diesel with the colouring substance and marker removed by illegal syndicates for sale in the black market as vehicle fuel. The black market price of detreated oil is about \$3 per litre, which is much lower when compared with the price of duty-paid diesel that is sold in the market at \$6 per litre. So there is an incentive for drivers of goods vehicles and dump trucks to purchase it. After years of enforcement actions by the C&ED, the use of detreated oil has been reduced substantially.

50. According to the C&ED’s latest intelligence, all illegal detreating plants currently found equipped with underground storage tanks have ceased operations.

51. The C&ED will continue to closely monitor illegal syndicates that manufacture detreated oil, and take enforcement actions when situations warrant. If necessary, the inter-departmental working committee, led by the C&ED, will take decisive actions to suppress their resurgence.

Marked Oil

52. Since marked oil (red oil) can easily be identified, the use of it as illegal fuel is not rampant. According to the

statistics of the vehicle checks at road blocks set up by the C&ED, about 2.22% of the vehicles checked were found using marked oil. The selling price of marked oil for industrial use is about \$1.5, whereas that for vehicle fuel is about \$2.2-\$2.6. Marked oil, like the detreated oil, is mostly abused by lorries and dump trucks.

53. There are two main measures in combating illegal use of marked oil. The first one is to set up road blocks in streets throughout Hong Kong from time to time to check if vehicles illegally use the marked oil. The second one is to implement a series of administrative measures, which include tightening the restriction on the oil companies in providing low sulphur marked oil to suspicious companies. As a result of a series of crackdown measures, the monthly sale of low sulphur marked oil drops from the peak of 8.8 million litres in May 2001 to 4.4 million litres in September this year.

54. To further eradicate illicit use of marked oil, we have planned to assign Customs officers to escort the marked oil sold by oil companies to suspected buyers when necessary. We believe all of the above measures have already kept the abuses of marked oil situation at bay.

55. We have also noticed that the UK will introduce the "Registered Dealers in Controlled Oil System" in April 2003. Subject to the effectiveness of the system, we will also study the feasibility of introducing a similar monitoring system in Hong

Kong.

Diesel oil smuggled from the Mainland

56. At present, there is no sign of an increase in the activities of bringing in excessive duty-free diesel oil for illicit transfer by cross-boundary goods vehicles.

57. The C&ED will closely monitor the quantity of diesel oil in the fuel tanks of cross-boundary goods vehicles and make sustained enforcement efforts to prevent the abuse of diesel oil duty-free concessions by cross-boundary goods vehicles and the possible resurgence of the problem of illicit transfers of Mainland diesel oil.

58. Officers of the C&ED Control Points Command make random checks of the fuel tanks of incoming goods vehicles everyday to monitor the quantities of duty-free diesel oil in their fuel tanks. At present, the quantities of duty-free diesel oil allowed for cross-boundary goods vehicles entering Hong Kong are prescribed according to the cylinder capacity of a goods vehicle. Permitted quantities range from 100 to 300 litres of diesel oil. From January to October 2002, of the 1 239 incoming goods vehicles checked by the C&ED at the Lok Ma Chau, Man Kam To and Sha Tau Kok Control Points, only 23 vehicles were found to have brought in excessive quantities of duty-free diesel oil, for which duty had to be paid or prosecution had to be instituted. The percentage of vehicles found to have

brought in excessive quantities of duty-free diesel oil among all the vehicles checked accounted for 1.9% only.

59. In the same period, of the 1 836 vehicles checked by the C&ED at the roadside over the territory, only 26 vehicles (1.4% of the total vehicles checked) were found using diesel oil with sulphur content in excess of the prescribed statutory limit, for which prosecution had to be instituted. It is believed that the diesel oil used by these vehicles is originated from the Mainland as the sulphur content of the diesel oil sold in the Mainland is higher than the prescribed standard of Hong Kong.

60. The above figures indicate that the problem of the abuse of duty-free diesel oil for illicit transfers is not serious. That said, the C&ED will closely monitor the situation, take sustained enforcement actions. Whenever necessary, the C&ED will also strengthen the boundary and road-side checking of vehicles so as to prevent the illicit transfer of duty-free diesel oil by cross-boundary goods vehicles.

Customs and Excise Department
December 2002

**C&ED's Achievements in the
Seizure of Illicit Cigarettes**

Year	2000	2001	2002 (January to October)
No. of Case	2,203	1,777	2,068
No. of persons arrested	2,058	1,625	1,973
No. of cigarettes seized (stick) *	129,039,528	335,115,479 @	144,336,468

@ The increase in the seizure of cigarettes is due to the 200 million sticks of duty-not-paid cigarettes seized in 24 transshipment cases

* Not including the duty-not-paid cigarettes abandoned by passengers at all control points and airport

**The enforcement achievements in combating
illicit fuel activities**

Year	2000	2001	2002 (January to October)
Number of cases	1,442	926	1,191
Quantity of fuel seized (Million litre)	4.53	1.63	1.69

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Tel No. : 2852 3345
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19 December 2002

Public Accounts Committee
(Attn.: Miss Sandy Chu)
Legislative Council Building
8 Jackson Rd., Central
Hong Kong.

Dear Ms CHU,

**The Director of Audit's Report on the
Results of Value for Money Audits (Report No. 39)**

**Chapter 2: The Customs and Excise Department's efforts
to protect government revenue from dutiable commodities**

Thank you for your letter of 10 December 2002.

We have received confirmation from the Kowloon Canton Railway Corporation (KCRC) that the five seconds requirement is not a term in the Licence Agreement between the KCRC and the Duty Free Shop at the Lowu Terminal. The requirement was issued by the KCRC as part of a set of operational guidelines for the in-bound duty free business at the Lowu Terminal. Its main purpose is to facilitate smooth customer flow and avoid queuing up outside the premises. The guidelines were devised by the Lo Wu Management Committee comprising the Immigration Department, Customs & Excise Department, Police and KCRC. The Duty Free Shop operator has undertaken to observe and comply with these guidelines. Copies of the relevant letters from KCRC dated 22.9.1999 and 13.12.2002 are attached for your reference.

We are still in the process of reviewing the licence conditions for the Duty Free Shop and will endeavour to complete it as soon as possible. We will report the outcome of the review to the Committee once it is completed.

Yours sincerely,

A handwritten signature in black ink, appearing to be "K Chow".

(K Chow)

for Commissioner of Customs & Excise

Encls.

c.c. Secretary for Financial Services and the Treasury
Director of Immigration
Director of Audit

Our Ref.: PPT/PSD/CONT/1/8.1

Tel No.: 2688-1715

Fax No.: 2688-0284

13 December, 2002

Hong Kong Customs and Excise Department
7/F Harbour Building
38 Pier Road
Central, Hong KongBy Fax and By Post
Fax No.: 2541 3470Attn.: Mr. C. C. Hui
for Commissioner of Customs and Excise

Dear Sir,

In-bound Duty Free Shop at Lo Wu Station

Your fax of 11 December 2002 in relation to the review on the licence conditions for the subject refers.

Please be advised of the following in relation to your requested information-

- i) The five seconds requirement was devised as an operation guideline for the in-bound duty free business aiming to facilitate smooth customer flow and avoid queue up outside the shop premises.
- ii) The five seconds requirement was devised by the Lo Wu Management Committee comprising the Immigration Department, Customs and Excise Department, Police and KCRC.
- iii) The five seconds requirement is still a guideline for the in-bound duty free operation.
- iv) The five seconds requirement is not a term in the Licence Agreement.

.../P.2

- v) The main purpose of the five seconds requirement is to avoid queue up outside the shop premises. As long as there is no queue up outside the premises, KCRC would not take any action.

Should you require further information, we should be grateful to assist.

Yours faithfully,



(Vivianne Lai)

Senior Manager, Commercial (Acting)

c.c. GM-PS

VL/st

D2004543



Our Ref.: PPT/PSD/CONT/1/8.1 III

Tel.: 2688-1390

Fax: 2688-0284

22 September, 1999

By Fax & By Hand

Distribution

Dear Sir,

In-bound Duty Free Business at Lo Wu Station

This refers to our submissions dated 9 August 1999 and 24 August 1999 regarding the captioned.

After several consultations with all the operating Government departments in the Lo Wu Terminal, we have finalized our proposal for your consideration.

Locations of the Premises

The in-bound duty free shop will be located at the 2/F Arrival Hall of Lo Wu Station which location is marked in annex I. The location of the sub-store and sales counter is also shown in annex II. The operation of the sub-store at this location will be ceased upon the in-bound duty free shop is operational.

Goods Delivery Route

Goods to be sold are solely dutiable commodities. All goods will be delivered from the bonded warehouse on LG/F to the out-bound duty free shop on G/F via lift no. 7, and then via lift no. 5 to the in-bound duty free premises at 2/F Arrival Hall. The routing is shown more specifically in annex III.

Crowd Control System

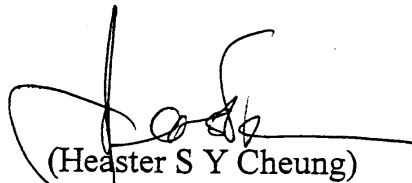
Guidelines for crowd control system and operational arrangement for both the sub-store and the shop are set out in annex IV.

The duty free shop operator has undertaken to observe and strictly comply with these guidelines.

The target business commencement date of the sub-store and the warehouse at 2/F Arrival Hall is 22 September 1999. Any further views from you after the commencement of business will be most welcomed

Should you require further information, please contact the undersigned. Thank you for your attention.

Yours faithfully,



Senior Manager, Station Commercial

Distribution

Mr. M K Tang (Senior Principal Immigration Officer, Border, Immigration Dept.)
Mr. Lam Tak-fai (Divisional Commander, Lo Wu, Customs & Excise Dept.)
Mr. T K Wong (Commissioner of Police, Lo Wu, Hong Kong Police Force)

Encl.

c.c. Mr. Tong Wai-man (Assistant Staff Officer, Customs & Excise Dept.)
Mr. Raymond Lo (Operations Manager, DFB Services & Consultants Ltd.)
Mr. S M Li (General Manager, Property Services, KCRC)
Mr. Anthony Yan (Customer Services Manager, KCRC)
Mr. W Y Fung (Senior Building Manager, KCRC)

HSYC/VL/jc

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In-bound Duty Free Business at Lo Wu Station
Guidelines on Crowd Control System and Operation Arrangement
on In-bound Duty Free Shop

Crowd Control / Queuing Area

In-Store Monitoring

1. Sales activities shall be carried out inside the shop premises. There will be at least one Shop Manager and one Customer Services Supervisor stationed at the shop at all times. They are responsible for maintaining all sales activities inside the shop and keeping order of the shop premises. For normal operating hours, there will be a minimum of 6 sales staff, each aiming at concluding one purchase in 5 seconds and maintaining fast and smooth operation.
2. During peak operating hours, additional sales staff will be maintained at the shop to speed up the sales time. If the shop is overcrowded, the Customer Services Supervisor has to direct the customers to queue inside the shop premises. If there is a customer build-up in the area, he will advise the customers to proceed immediately ahead to the Immigration counters.

Overcrowding and Queuing

3. A NO WAITING ZONE shall be set up outside the shop covering the entire shop front. To ensure that no customers / passengers staying around the shop premises, the NO WAITING ZONE will be kept clear at all time such that the passenger flow from the bridge to the Arrival Hall will not be disturbed and the queuing area before the immigration counters will not be occupied by these customers / passengers.
4. The duty free operator shall deploy the Customer Services Supervisor to stay at the shop front area throughout the business hours to regulate and strictly control the customer flow in order to maintain a clearance at the NO WAITING ZONE at all time.
5. The duty free shop is required to be temporarily closed under the following situations -
 - (i) The Customer Services Supervisor has taken action on regulating customer flow but the NO WAITING ZONE is still overcrowded with people that may affect the emergency route or bridge traffic.
 - (ii) The Arrival Hall is overcrowded with long queues of passengers that may extend to inside the NO WAITING ZONE.

- (iii) At the request of an operating department which considers the circumstance warrants, e.g. in an emergency.

Upon receipt of consent from the operating department when situation allows, the duty free operator will resume business.

Emergency

6. Emergency always takes priority over the duty free operation. If any of the operating departments sees that there is a need, it may request the duty free operator to take steps to ensure a clear passage in front of the shop.

7. Upon receipt of a request from the operating department, the Customer Services Supervisor will immediately take steps to keep the passageway clear by stopping customers / passengers entering the passageway and diverting customers / passengers to stay inside the shop premises.

Contact Person for Crowd Control / Emergency Matters

8. Concerning crowd control / emergency matters, the Shop Manager / Customer Services Supervisor is the contact point.

Goods Delivery

9. Daily delivery of goods is scheduled for 2 trips from 10:00 a.m. to 11:00 a.m. and from 4:00 p.m. to 5:00 p.m.. 15 minutes prior to each delivery, the Shop Manager will consult each operating department on the situation. If situation is permissible, the delivery of goods can take place. The goods can be transported when the delivery route is cleared without creating disturbance to normal passenger flow of both the Arrival and Departure Halls.

10. The Shop Manager will accompany the delivery of goods with the escort of Customs and Excise officer.

11. The goods delivery route is from the bonded warehouse on LG/F to the out-bound duty free shop on G/F via lift no. 7, and then via baggage lift no. 5 to the in-bound duty free shop at 2/F.

Emergency in Relation to Goods Delivery

12. Emergency always has priority over goods delivery. The emergency access route and lift no. 5 have to be kept clear for ambulance and emergency cases. Should there be any emergency cases as informed by an operating department, delivery shall

not commence and shall be deferred until further notice from the operating departments. In situation when emergency takes place during the delivery, the operating departments will contact the duty free Shop Manager / Customer Services Supervisor / Customs and Excise to stop delivery and vacate the access route and lift immediately. The delivery will be resumed with the confirmation of Customs and Excise when the emergency case is cleared.

13. The keys for lift no. 5 will be kept by Immigration and Customs and Excise. Immigration keeps the key with an aim to control the lift for emergency cases while Customs and Excise keeps the key to control the lift for escorting and supervising the delivery of goods.

Permit

14. All staff must wear valid Restricted Area Permit for working at 2/F Arrival Hall, and no access to other restricted areas is allowed unless the Restricted Area Permit permitted. For staff responsible for the delivery of goods, it is necessary for them to have proper Restricted Area Permit so as to access different floors of the terminal covered in the delivery route. All staff should observe all the rules and regulations applicable to personnel working in the Lo Wu Terminal, in particular, they should not evade immigration clearance by crossing the boundary. Staff will undertake in writing to observe all the rules and regulations.

Others

15. Business of the in-bound duty free shop will be commenced 30 minutes after the start of the normal operating hours at Lo Wu Control Point. The shop will be closed 45 minutes before the end of the normal operating hours at Lo Wu Control Point.

16. The contact point of the in-bound duty free shop is the Shop Manager / Customer Services Supervisor.

(Prepared on 21 September 1999)

Sept47779.doc

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HONG KONG
CUSTOMS AND EXCISE DEPARTMENT
9/F., Harbour Building
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本署檔案 Our Ref.: (17) in L/M to HDC/AD/36
來函檔號 Your Ref.: CB(3)/PAC/R39
本署電話 Our Tel.: 2852 3345
圖文傳真 Our Fax.: 2854 1959

15 January 2003

Public Accounts Committee
(Attn : Miss Sandy Chu)
Legislative Council Building
8 Jackson Road, Central
Hong Kong

Dear Miss Chu

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 2: The Customs and Excise Department's efforts
to protect government revenue from dutiable commodities**

I refer to your letters of 10 & 21 December 2002 and 9 January 2003,
and our previous reply of 19 December 2002.

The Customs & Excise Department (C&ED) has completed its
review on the licence conditions for the Duty Free Shop (DFS) at the Lowu
Terminal. In the review, we have carefully examined all measures to achieve a
good balance between the need for revenue protection and the need for facilitating
a smooth flow of the huge volume of incoming passengers at the Terminal. We
have revised some licence conditions to ensure that they are both effective and
practicable. (Please see Annex.)

Before implementing the revised licence conditions, we have
consulted DFS and the Department of Justice to ensure that they can be followed in
practice and that they are legally proper. A set of guidelines has also been
provided to DFS to assist its sales staff in complying with the revised licence
conditions. After implementation, our on-site inspections have confirmed that DFS

is complying with the revised licence conditions without difficulty. We will continue to closely monitor the sales activities of DFS to ensure its compliance with the revised licence conditions.

The Kowloon-Canton Railway Corporation (KCRC) has confirmed that the "Guidelines on Crowd Control System and Operating Arrangement" has no legal status in relation to the Licence Agreement between KCRC and DFS and is not legally binding on DFS. As such, there will not be any legal consequences faced by DFS for not complying with the Guidelines.

With the introduction of the revised licence conditions, a transaction for the sale of duty-free cigarettes over the sales counter at DFS at Lowu can now be completed within 5 seconds. Hence, it is considered no longer necessary to review the "5-seconds requirement". Nonetheless, we will continue to monitor the sales activities closely.

In a separate letter, I shall provide you with the information you requested in your letter of 9 January 2003 relating to the installation of computer terminals at the three control points.

Yours sincerely



(K Chow)

for Commissioner of Customs & Excise

c.c. Secretary for Financial Services and the Treasury
Director of Immigration
Director of Audit

**Extract of the licence conditions relating to the sales activities
of the Duty Free Shop at the Lowu Terminal**

The previous licence conditions (effective from 22.9.1999 to 31.12.2002)

- (i) All dutiable liquor and tobacco must only be sold or supplied to the arrival passengers at the Lo Wu Terminal. The Licensee is required to ascertain the status of passengers by inspecting their passports or travel documents.
- (ii) The Licensee is required to ensure that the quantities of dutiable goods sold to an arrival passenger shall not exceed his/her entitled duty free concession, which shall be reduced by the quantities of duty free goods the passenger brings into Hong Kong.
- (iii) The sales of dutiable goods will be covered by serially numbered invoices, which are to be kept for at least two years after their creation and ready for Customs verification. The invoice shall contain the following information:
 - (a) Customer's name;
 - (b) Arrival date of the customer; and
 - (c) Description and quantity of goods, including unit price and amount of sales.

The new licence conditions (effective from 1.1.2003)

- (i) All dutiable goods must only be sold or supplied to arrival passengers at the Lo Wu Terminal;
- (ii) If the dutiable goods sold by the licensee exceed the following quantities:
 - (a) To a passenger who does not hold a Hong Kong Identity Card —
 - (1) one litre of alcoholic liquor; and
 - (2) 200 cigarettes or 50 cigars or 250 grams of other manufactured tobacco; or

(b) To a passenger who holds a Hong Kong Identity Card —

- (1) 750 millilitres of still wine; and
- (2) 60 cigarettes or 15 cigars or 75 grams of other manufactured tobacco,

the Licensee is required to deliver and hand over the dutiable goods to the passenger in the presence of a Customs officer stationed at the Customs and Excise Duty Payment Office, Lo Wu Terminal.

(iii) Sales of dutiable goods shall be covered by serially numbered invoices, which are to be kept for two years after they are issued, for Customs verification. The invoice shall contain the following information for each transaction:-

- (a) Transaction date; and
- (b) Description and quantity of dutiable goods, including unit price and amount of sales.

Explanatory notes :

- Conditions (i) and (iii) have been trimmed down.
- Condition (ii) has been rewritten to ensure it is practicable for DFS to follow. DFS has confirmed that requests from customers to buy dutiable goods in excess of the duty-free concession quantity are very rare and there has not been a single transaction of such nature between 1.1.03 and 15.1.03.
- Normally, 2 DFS counter staff are involved in a transaction, one being responsible for receiving money, making changes if necessary and issuing invoice, and the other, for handing over the cigarettes to the customer. DFS staff are not required to verify the status of a customer buying 60 cigarettes (i.e. 3 small packets) or less. On-site inspections show that the whole process over the sales counter takes an average time of 4 seconds to complete.

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CUSTOMS AND EXCISE DEPARTMENT
HONG KONG
7/F, Harbour Building
38 Pier Road, Central
Hong Kong

本署檔號 Our Ref : L/M to HDC/AD/36
來函檔號 Your Ref : CB(3)/PAC/R39
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圖文傳真 Our Fax : 2854 1959

28 January 2003

Public Accounts Committee
(Attn : Miss Sandy Chu)
Legislative Council Building
8 Jackson Road, Central
HONG KONG

Dear Miss Chu,

**The Director of Audit's Report on the
result of value for money audits (Report No.39)**

**Chapter 2 : The Customs and Excise Department's efforts
to protect government revenue from dutiable commodities**

Thank you for your letter of 22 January 2003.

I append below the information that you requested:

- (a) Under the revised licence conditions, the licensee is no longer required to inspect a customer's Hong Kong Identity Card during each transaction. However, if the customer asks to purchase more than 3 small packets (i.e. 60 cigarettes), he will be asked to show his travel document;

- (b) Two floor plans showing the locations of the Customs and Excise Duty Payment Office and the Duty Free Shop (DFS) sales outlets at the first and second floors of the Lowu Terminal are attached at Annex ; and
- (c) - (e) When the quantity of cigarettes to be purchased by a customer exceeds the duty-free concession, the DFS will issue the customer with an invoice after receiving payment and inform the customer to proceed, through the Immigration counters, to the Customs and Excise Duty Payment Office at the Customs area for duty payment and collection of the cigarettes. Where necessary, the DFS would supply a map [same as Annex] to the customer showing how he/she could proceed to the Customs & Excise Duty Payment Office;

At the same time, the DFS will arrange for a staff to deliver the cigarettes to the Customs & Excise Duty Payment Office, which is not another DFS sales outlet, and wait for the customer there. When the customer shows up, the DFS staff will present the cigarettes purchased by the customer to the Customs officer at the Customs & Excise Duty Payment Office;

The Customs officer will then assess duty on the cigarettes. Duty will only be levied on the quantity of cigarettes in excess of the duty-free concession. In suspicious cases, the Customs officer may need to inspect the customer's travel document in order to verify whether the customer has met all the requirements for enjoying the duty-free concession. The customer can collect the cigarettes after payment of duty; and

This requirement is a measure for the protection of revenue and the DFS has been consulted before its implementation. As the Customs & Excise Duty Payment Office is away from the DFS sales outlets and such occasions are very rare in practice, this arrangement should not cause any congestion in the arrival halls at the Lowu Terminal.

Yours sincerely,



(K Chow)

for Commissioner of Customs & Excise

c.c. Secretary for Financial Services and the Treasury
Director of Immigration
Director of Audit

***Note by Clerk, PAC:** *Annex not attached.*



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Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

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電話 Telephone : 2829 4251

本署檔號 Our Ref. : UB/PAC/ENG/39-3

來函檔號 Your Ref. CB(3)/PAC/R39

28 January 2003

Miss Sandy Chu
Clerk, Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road, Central
Hong Kong

Dear Miss Chu,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 2: The Customs and Excise Department's efforts
to protect government revenue from dutiable commodities**

Thank you for your letter of 22 January 2003, inviting me to comment on the contents of the Commissioner of Customs and Excise's letter of 15 January 2003, in particular the practicability of the five-second requirement in the light of the new licence conditions for the duty-free shops.

Audit visit to Lo Wu on 24 January 2003

The new licence conditions have been implemented with effect from 1 January 2003. To obtain a better understanding of the implementation, Audit staff visited the Lo Wu Control Point on 24 January 2003, interviewed the Customs Officer-in-charge and, in his presence, observed on the spot how the revised conditions were applied in practice. Audit staff also obtained for scrutiny a copy of the new Procedural Guidelines, referred to in paragraph 3 of the Commissioner's letter, which supplement the licence conditions to help the licensee comply with the new licence conditions.

Audit findings

Based on the findings during the visit, I have come to the view that, in terms of practicability, the new licence conditions represent a significant improvement over the previous ones. My main findings are as follows:

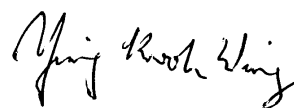
- (a) according to the new licence conditions (supplemented by the Procedural Guidelines), the licensee needs not ascertain the status of the customers if their purchases do not exceed the duty-free concessions for local residents. Audit notes that for these purchases, which constitute the vast majority of the transactions, it is possible for the sales staff to complete a transaction in five seconds;
- (b) if a customer's purchase exceeds the duty-free concession for local residents but does not exceed that for visitors, before selling the goods to him, the licensee is required to ask the customer to prove his visitor status. While it may take more than five seconds to complete the transaction, in Audit's view, this process is necessary to help prevent abuses of duty-free concessions; and
- (c) if a customer's purchase exceeds the duty-free concession applicable to his resident status, the customer concerned will be asked to go to the Customs' Duty Payment Office to pick up the goods. The dutiable goods will then be delivered to the Duty Payment Office and handed over to the customer in the presence of a Customs Officer. The purpose of this arrangement is to ensure that duties are duly assessed and collected. According to the Customs Officer in charge of the Lo Wu Control Point, the whole process could take about ten minutes to complete, but so far there had not been any such a transaction. Despite the much longer time required to complete the transaction, in Audit's view, this process is necessary for the proper assessment and collection of government revenue.

Conclusion

The new licence conditions (supplemented by the Procedural Guidelines) should reduce the risks of abuses of duty-free concessions at source. However, strict compliance with items (b) and (c) above is necessary to ensure the effectiveness of the new procedures. **The Public Accounts Committee may wish to urge the Commissioner of Customs and Excise:**

- (a) **to closely monitor the sales activities at the Lo Wu duty-free shops to ensure compliance with the new procedures; and**
- (b) **to conduct a comprehensive post-implementation review of the new procedures at an appropriate time (say in three months' time) and report the result to the Committee.**

Yours sincerely,



(YING Kwok-wing)
for Director of Audit



電話 Tel 2829 3831 [Fax No. : 2824 1675]

覆函請註明本處檔號

In reply please quote this ref

IMM/QA 2/65

入境事務處處長
Director of Immigration

Yr Ref. : : CB(3)/PAC/R39

14 December 2002

Clerk, Public Accounts Committee
(Attn. : Miss Sandy Chu)
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Miss Chu,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 2 : The Custom and Excise Department's efforts
to protect government revenue from dutiable commodities**

Thank you for your letter of 10 December 2002.

I enclose for the reference of the Public Accounts Committee the proposed mechanism for verification of the departure time of travellers by the Customs and Excise Department. A Chinese translation is also attached.

/....

Comments from the Privacy Commissioner for Personal Data and the ICAC on the proposed mechanism are being sought. It is understood that the Customs & Excise Department will provide the Committee with the detailed operation guidelines once the mechanism is confirmed.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'T K Lai', written in a cursive style.

T K Lai
Director of Immigration

Encls.

cc Secretary for Financial Services and the Treasury
 Commissioner of Customs and Excise
 Director of Audit

**Proposed Mechanism for Verification
of the Departure Time of Travellers
by Customs and Excise Department (C&ED)**

Introduction

The following paragraphs outline the proposed mechanism for facilitating C&ED to verify a traveller's duration of absence from Hong Kong for the purpose of assessing his eligibility for duty-free concession under the Dutiable Commodities (Exempted Quantities) Notice made under the Dutiable Commodities Ordinance, Chapter 109.

The Proposal

2. C&ED proposes to install three computer workstations at their offices at Lowu, Lok Ma Chau and the Hong Kong-Macau Ferry Terminal. The workstations shall enable C&ED to seek confirmation from Immigration Department (ImmD) through electronic means on the duration of absence of a particular traveller.

The Arrangement

Physical Security

3. The computer workstations will be installed inside the office of the Duty Customs Inspector. The Duty Inspector shall be responsible for the operation of, and for the control of physical access to, the computer workstations during his tour of duty.

Access Control

4. The ImmD operates an information system called Immigration Control Automation System (ICAS) to support the operations of the control points. This system maintains a database of traveller movement records. Enquiry to confirm a traveller's duration of absence from Hong Kong by C&ED officers can be

made by access to the ICAS database. There will be two layers of access control:

(a) ***Location Control***

To start up the system, an authorized officer of the C&ED of the rank of Inspector or above (hereafter referred to as the authorized officer) will have to input a Location Identifier (Loc ID) and Location Password unique to each of the three control points as assigned by ICAS Control Section of ImmD.

(b) ***Enquiry Control***

An authorized officer will have to input his personal identifier (User ID) and User Password to conduct the enquiry. All officers concerned will be reminded to change their User Password periodically.

Functionality of the System

5. (a) The computer workstations shall have no linkage to the ICAS database other than for the verification purpose mentioned in paragraph 1 above.
- (b) The system² will not allow any enquiry to be made on personal data of any kind and there shall be no release of personal data either.
- (c) Before making each enquiry on the computer workstation, the authorized officer will be prompted by a warning message as follows:

“

WARNING

You are requesting for confirmation of a person's duration of absence from Hong Kong. To confirm that your request is made for the enforcement of duty free concession and in compliance with the exemption of the Personal Data (Privacy) Ordinance, Cap. 486, Laws of Hong Kong, please enter your Password to proceed.”

The authorized officer will then be required to acknowledge the warning message by entering his User Password before he can proceed to enter the identity card number of the traveller.

- (d) After checking the traveller's departure time, the system will display "Yes" or "No" on the screen of the computer workstation to indicate whether or not the traveller has left Hong Kong for over 24 hours.
- (e) Audit trail reports recording the enquiries performed at the workstations of the three control points during the day will be produced by the system in the early morning of the following day for reconciliation purpose. The audit trail report will show the User ID of the officer who has made an enquiry, the workstation number, the identity card number of the traveller checked, the date, time and result of the enquiry.

Monitoring and Auditing Control

C&ED

6. The authorized officer shall enter each and every enquiry conducted into a Record Check Register which records the officer's particulars and the identity card number of the travellers being checked.

7. The Senior Inspector of C&ED of respective control point shall conduct daily check on the Record Check Register against the audit trail report (paragraph 5(e)) to ensure that all enquiries are performed by authorized officers. Any irregularities shall immediately be brought to the notice of the officer-in-charge of the control point concerned and the ICAS Control Section of ImmD.

8. The officer-in-charge of the relevant control point (i.e. an Assistant Superintendent of C&ED) shall have the overall

responsibility for the operation, security and safekeeping of the computer workstations. He will be responsible for authorizing officers to conduct the enquiries and notifying the ICAS Control Section of ImmD such authorization is made. He shall conduct the spot check of the Record Check Register & send a certified true copy of the entries for the preceding seven days to the ICAS Control Section on every Monday for vetting purpose.

ImmD

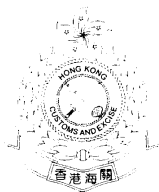
9. The ICAS Control Section of the ImmD is responsible for the operation and overall security of the Immigration Control Automation System and will ensure that it is operated strictly within the confines of the law and data privacy protection principles.

10. The ICAS Control Section of ImmD will conduct on-site checks to ensure that the computer workstations at the control points are kept in good working order and that no unauthorized software or connections are installed that would affect the smooth operation of the workstations or pose a threat to the security of the system.

NOTE:

THE ABOVE IS A TENTATIVE PROPOSAL BY THE C&ED WHICH IS ALSO NOW IN THE PROCESS OF CONSULTING THE PRIVACY COMMISSIONER FOR PERSONAL DATA AND THE ICAC.

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25 January 2003

Clerk, Public Accounts Committee
(Attn: Miss Sandy Chu)
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Miss Chu,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 2: The Customs and Excise Department's efforts
to protect government revenue from dutiable commodities**

I refer to the Director of Immigration's reply letter to the Public Accounts Committee (PAC) of 14 December 2002 and your letter of 9 January 2003 concerning the proposed mechanism for verification of the departure time of travellers.

To enable the Customs and Excise Department (C&ED) to effectively enforce the 24-hour rule in relation to the duty-free concession for incoming passengers, we are now putting in place an on-line communication arrangement between the C&ED and the Immigration

Department (ImmD). Under the arrangement, three computer workstations dedicated for limited on-line enquiry function are installed at the C&ED's offices at the Lowu Control Point, Lok Ma Chau Control Point and Hong Kong-Macau Ferry Terminal to enable the C&ED to make verification with the ImmD in suspicious cases (e.g. couriers seen crossing the Lowu Terminal several times a day). The C&ED will not conduct such verification on every incoming passenger.

Upon an on-line enquiry through one of the workstations, an authorized C&ED officer of the rank of Inspector or Senior Inspector will see on the screen of the workstation a "Yes" or "No" which indicates whether an incoming passenger travelling on a Hong Kong identity card has spent more than 24 hours or less outside Hong Kong. Apart from this information, the workstations will not allow any enquiry to be made on personal data of any kind and there will be no release of personal data either. Details of the verification mechanism are attached at Annex I.

The C&ED and the ImmD have consulted the Office of the Privacy Commissioner for Personal Data (PCO), the Independent Commission Against Corruption (ICAC) and the Department of Justice when formulating the operating procedures for the new arrangement. All measures on protection of personal data and prevention of abuse on the use of the facility, including those suggested by the PCO and the ICAC, have been incorporated into the finalized procedures.

The following documents relating to the arrangement are attached for reference :

- Annex I - Mechanism for Verification of Departure Time of Travellers;
- Annex II - The C&ED's measures on protection of personal data collected and prevention of abuse on the use of the facility;
- Annex III - Summary of comments from the ICAC; and
- Annex IV - Summary of comments from the PCO.

Installation work of the workstations at the three control points has been completed. We intend to implement the verification mechanism by the end of February 2003.

Our operating procedures have contained sufficient safeguards for protecting the personal data collected under this new arrangement and preventing abuse on the use of the facility. Notices will be put up at all control points to inform passengers of their rights under the Personal Data (Privacy) Ordinance. We will also widely publicize the arrangement through the mass media before we commence using the verification mechanism.

I hope the supplementary information contained in this letter has addressed Members' concern over the issue of protection of personal data. If, however, Members still consider there is a need for further discussion at the relevant Legislative Council Panel, we would be happy to oblige.

Yours sincerely,



(K Chow)

for Commissioner of Customs and Excise

Encls.

c.c. Secretary for Financial Services and the Treasury
Director of Immigration
Director of Audit

Mechanism for Verification of Departure Time of Travellers

Introduction

The following paragraphs outline the proposed mechanism for facilitating the Customs and Excise Department (C&ED) to verify a traveller's duration of absence from Hong Kong for the purpose of assessing his eligibility for duty-free concessions under the Dutiable Commodities (Exempted Quantities) Notice made under the Dutiable Commodities Ordinance, Chapter 109.

The Proposal

2. The C&ED proposes to install three computer workstations at their offices at Lowu, Lok Ma Chau and the Hong Kong-Macau Ferry Terminal. The workstations will enable the C&ED to seek confirmation from the Immigration Department (ImmD) through electronic means on the duration of absence of a particular traveller.

The Arrangement

Physical Security

3. The computer workstations will be installed inside the office of the C&ED's Duty Inspector. The Duty Inspector shall be responsible for the operation of, and the control of physical access to, the computer workstations during his tour of duty.

Access Control

4. The ImmD operates an information system called the Immigration Control Automation System (ICAS) to support the operations of the control points. Enquiry to confirm a traveller's duration of absence from Hong Kong by C&ED officers can be made by access to the ICAS database. There will be two layers of access control:

(a) ***Location Control***

To start up the system, an authorized officer of the C&ED of the rank of Inspector or above (hereafter referred to as an authorized officer) will have to input a Location Identifier (Loc ID) and a Location Password unique to each of the three control points as assigned by the ICAS Control Section of the ImmD.

(b) ***Enquiry Control***

An authorized officer will have to input his personal identifier (User ID) and User Password before conducting any enquiry. All officers concerned will be reminded to change their User Password periodically.

Functionality of the System

5. (a) The computer workstations shall have no linkage to the ICAS database other than for the verification purpose mentioned in paragraph 1 above.
- (b) The system will not allow any enquiry to be made on personal data of any kind and there shall be no release of personal data either.
- (c) Before making an enquiry on the computer workstation, an authorized officer will be prompted by a warning message as follows:

“

WARNING

You are requesting for confirmation of a person's duration of absence from Hong Kong. To confirm that your request is made for the enforcement of duty free concession and in compliance with the exemption of the Personal Data (Privacy) Ordinance, Cap. 486, Laws of Hong Kong, please enter your Password to proceed.”

The authorized officer will then be required to acknowledge the warning message by entering his User Password before he can proceed to enter the identity card number of the traveller.

- (d) After checking the traveller's departure time, the system will display "Yes" or "No" on the screen of the computer workstation to indicate whether or not the traveller has left Hong Kong for over 24 hours.
- (e) Audit trail reports recording the enquiries performed at the workstations of the three control points during the day will be produced by the system in the early morning of the following day for reconciliation purpose. The audit trail report will show the User ID of the officer who has made an enquiry; the workstation number; the identity card number of the traveller checked; and the date, time and result of the enquiry.

Monitoring and Auditing Control

C&ED

6. An authorized officer shall enter each and every enquiry conducted into a Record Check Register which records the officer's particulars and the identity card number of the traveller being checked.

7. The Assistant Superintendent of the C&ED at the respective control point shall conduct a daily check on the Record Check Register against the audit trail report (paragraph 5(e)) to ensure that all enquiries are performed by authorized officers and no malpractices are involved (e.g. no arrival record cases). Any irregularities shall immediately be brought to the notice of his immediate supervisor and the ICAS Control Section of the ImmD for appropriate investigation action.

8. The officer-in-charge of the relevant control point (i.e. an Assistant Superintendent of the C&ED) shall have the overall responsibility for the operation, security and safekeeping of the computer workstations. He will be responsible for authorizing officers to conduct the enquiries and notifying the ICAS Control Section of the ImmD of such authorization made or cessation of such authorization, 7 days in advance. He shall conduct checks on the Record Check Register & send a certified true copy of the entries for the preceding seven days to the ICAS Control Section weekly for vetting purpose, including the verification of signatures of authorized officers and reconciliation of enquiries recorded on audit trail report against the Record Check Register.

ImmD

9. The ICAS Control Section of the ImmD is responsible for the operation and overall security of the Immigration Control Automation System and will ensure that it is operated strictly within the confines of the law and data privacy protection principles.

10. The ICAS Control Section of the ImmD, apart from verification of authorized signatures on request for creation or cessation of user identifiers and reconciliation of enquiries recorded on audit trail report against the Record Check Register, will also conduct on-site checks to ensure that the computer workstations at the control points are kept in good working order and that no unauthorized software or connections, that could affect the smooth operation of the workstations or pose a threat to the security of the system, are installed.

Prepared by Immigration Department
& Customs and Excise Department

**C&ED's measures on protection of personal data collected
and prevention of abuse on the use of the
Immigration Control Automation System (ICAS)**

Notice to passengers

- A notice will be displayed prominently at the C&ED's offices at each control point to inform passengers of the purposes of collecting their personal data and their right of access to and correction of the data (See Appendix).

Authorized officers to conduct Record Checks¹

- Only Inspectors and Senior Inspectors (a total of 34 officers at present) at the 3 control points (i.e. Lowu, Lok Ma Chau and the HK-Macau Ferry Terminal) will be authorized by their respective Divisional Commanders (Assistant Superintendents) to conduct Record Checks;
- Individual access password created by the ImmD will be allocated to each C&ED authorized officer; the password will have to be changed quarterly;
- Authorized officers will carefully examine each case referred by front-line officers processing passengers at the examination counters before conducting Record Checks; and
- When an authorized officer is no longer required to access the ICAS (on vacation leave or posting out), the Divisional Commander concerned will inform the ImmD in writing to disable the access password of the officer.

Documentary Control

- Particulars of each Record Check will be recorded on a Record Check Register, including the passenger checked, the referral officer, the authorized officer conducting the check and the result of the check;
- All the related records of the Record Check, i.e. Record Check Register, Record Check Request Forms and Audit Trail Reports, will be kept in secure places; and

¹ Record Checks denote the checking through a designated computer workstation on whether a passenger has spent more than 24 hours or less outside Hong Kong.

- All these records will be destroyed either after the lapse of the normal retention period of one year or after the conclusion of a related investigation (e.g. investigation of complaints from members of the public), whichever is the later.

Auditing Control

- Normally, Record Checks will be conducted by Inspectors. A Unit Commander (Senior Inspector) at the end of each tour of duty will verify the number of checks made and endorse the Record Check Register;
- A Divisional Commander is required to check the Record Check Register against the Audit Trail Report prepared daily by the ImmD to ensure no discrepancies and to detect malpractices; and
- A Divisional Commander is also required to send a copy of the records in the Record Check Register covering the preceding 7 days to the ImmD for spot checks weekly.

Appendix of Annex II

[To be displayed at C&ED's offices at each control point]



Notice to Passengers on Collection of Personal Data

1. Purposes of Collection

- (a) To enforce the Dutiable Commodities Ordinance (Chapter 109), including verification of entitlement to duty free concessions, collection of duty, compounding or prosecuting offences under the Ordinance;
- (b) To facilitate future communication with the data subject in connection with any action under the Dutiable Commodities Ordinance; or
- (c) To maintain a record relating to any actions taken by the Customs and Excise Department under the Dutiable Commodities Ordinance.

2. Transfer of Personal Data

The personal data provided by the data subject for the purposes mentioned in paragraph 1 above may be disclosed to the Immigration Department, or where such disclosure is authorized or required by law.

3. Access to Personal Data

Under the Personal Data (Privacy) Ordinance (Chapter 486), the data subject has a right of access to and correction of the personal data collected by the Customs and Excise Department. The right of access includes the right to obtain a copy of the personal data provided by the data subject, subject to payment of a fee.

Enquiries and application for access to and correction of personal data collected should be addressed to:-

Departmental Secretary
Office of Departmental Administration
Customs and Excise Department
8/F, Harbour Building, 38 Pier Road, Central, Hong Kong.
Tel. No.: 2852 3359
Fax No.: 2581 2138

Customs and Excise Department

Summary of Comments from
the Independent Commission Against Corruption (ICAC)

Item No.	Comments from ICAC on the Operation Manual ¹	C&ED's Response
1.	<p><u>Para. 2 of Chapter 3</u> To specify the rank of officers who are authorized to gain access to ICAS².</p>	<p><i>Accepted.</i> Operation Manual has been amended. C&ED's officers of the ranks of Inspector or Senior Inspector may be authorized to gain access to ICAS.</p>
2.	<p><u>Para. 8 of Chapter 4</u> To specify the period of time of informing Immigration Department (ImmD) to disable the access password of an authorized officer who is no longer required to gain access to ICAS.</p>	<p><i>Accepted.</i> Operation Manual has been amended. C&ED will notify ImmD seven days in advance in writing to disable the access password of an authorized officer who is no longer required to gain access to ICAS.</p>

¹ Operation Manual denotes the Operation Manual for C&ED Officers for Gaining Access to the Immigration Control Automation System (ICAS)

² ICAS denotes the Immigration Control Automation System.

Item No.	Comments from ICAC on the Operation Manual ¹	C&ED's Response
3.	<p><u>Para. 5 of Chapter 8</u> To enhance checks and balances, C&ED should, in addition to the checking officer, include the particulars (name, rank and signature) of the referral officer in the Record Check Register.</p>	<p><i>Accepted.</i> Operation Manual has been amended. A new column in the Record Check Register is added to include the particulars (name, rank and signature) of the referral officer.</p>
4.	<p><u>Scanning of Identity Card</u> For preventing officers from making unauthorized enquiries to ICAS (e.g. checking the record of a person who is not an incoming passenger), it is suggested to use a scanner to scan in the Hong Kong Identity Card numbers instead of manual input so that the physical existence of a Hong Kong Identity Card can be ensured for any Record Check³.</p>	<p>C&ED in consultation with ImmD will explore the feasibility of installing scanner or other viable options with a view to addressing the concern of ICAC.</p> <p>To prevent abuse of the Record Checks, C&ED will put in place the following safeguards:-</p> <p>(a) at least two officers should be present in conducting a Record Check (one is the referral officer and the other is the checking officer);</p>

³ Record Check denotes the checking through ICAS on whether a passenger has spent more than 24 hours or less outside Hong Kong.

Item No.	Comments from ICAC on the Operation Manual ¹	C&ED's Response
4. (Con't)		<p>(b) both officers are required to sign on a Record Check Register [When the referral officer is working in a different control point where there is no ICAS terminal, he will need to sign a Record Check Request Form and fax it to the Checking Officer in one of the 3 control points where there is an ICAS terminal.];</p> <p>(c) the Record Check Register will be endorsed by a Senior Inspector at the end of each tour of duty;</p> <p>(d) the Divisional Commander (Assistant Superintendent) will counter-check the Record Check Register with the Audit Trail Report provided by ImmD on a daily basis; and</p> <p>(e) the Divisional Commander will make a copy of the records in the Record Check Register covering the preceding seven days and send it to ImmD for spot checks weekly.</p> <p>[ICAC has been informed of the above and has agreed to review the need for using scanner 3 months after implementation.]</p>

Summary of Comments from the Office of the Privacy Commissioner for Personal Data (PCO)

Part A - General Principles

Item No.	Comments from PCO – General Principles	C&ED's Response
1.	<p><u>Notice to passengers</u></p> <p>In conducting a Record Check¹, the personal data on the Hong Kong Identity Card of the passenger concerned will be collected. C&ED should inform the passenger concerned of the purpose of collecting the data.</p> <p><u>Notice to officers of C&ED</u></p> <p>In applying for a password from the ImmD for accessing ICAS², the personal data of the officer concerned will be collected. C&ED should inform the officer concerned of the purpose of collecting the data.</p>	<p><i>Accepted.</i> C&ED will arrange a notice, namely Notice to Passengers on Collection of Personal Data (see <u>Appendix of Annex II</u>), to be displayed prominently at C&ED's offices at each control point to inform passengers of the purpose of collecting their personal data and their right of access to the data.</p> <p><i>Accepted.</i> In C&ED's application form for the creation of identifier and password in ICAS (see <u>Appendix</u>), there is a notice informing C&ED officers of the purpose of collecting the personal data and their right of access to the data.</p>

¹ Record Check denotes the checking through ICAS on whether a passenger has spent more than 24 hours or less outside Hong Kong.
² ICAS denotes the Immigration Control Automation System

Item No.	Comments from PCO – General Principles	C&ED's Response
2.	<p><u>Retention of Data</u></p> <p>C&ED should specify the retention period of the personal data collected.</p>	<p><i>Accepted.</i> This procedure will be laid down in C&ED's internal instruction (a General Order).</p> <p>C&ED considers that the data collected should be retained for a reasonable period to facilitate further enforcement actions under the Dutiable Commodities Ordinance, investigation of complaints from members of the public or internal investigation of suspected abuses on the use of ICAS.</p> <p>The Divisional Commander (Assistant Superintendent) shall ensure that all the related records, i.e. Record Check Registers, Record Check Request Forms and Audit Trail Reports, should be kept in a secure place when not in use and they will be destroyed either after the lapse of the normal retention period of one year or after the conclusion of a related investigation, whichever is the later.</p>

Part B - Minor Amendments to Operation Manual³

Item No.	Comments from PCO – Operation Manual	C&ED's Response
1.	<u>Chapter 5 (page 8)</u> C&ED should inform the officer concerned of the purpose of collecting the data.	[Same as Item 1 of Part A]
2.	<u>Chapter 5 (page 9)</u> C&ED should, for security measure, remind the officers concerned to change their passwords regularly.	<i>Accepted.</i> C&ED will issue an internal instruction (a General Order) to require the authorized officers to change their passwords at least once every three months.

³ Operation Manual denotes the Operating Procedures on C&ED Officers Gaining Access to the Immigration Control Automation System (ICAS), which will form part of ImmD's Operation Manual on ICAS.

Item No.	Comments from PCO – Operation Manual	C&ED's Response
3.	<p><u>Chapter 6 (page 11)</u></p> <p>The Hong Kong Identity Card Number of the authorized officers of C&ED should not be displayed in the screen of ICAS workstation while the officers concerned are changing their passwords.</p>	<p>According to the existing system design, the display of Hong Kong Identity Card Number on the screen of the ICAS workstation serves as a unique identification as different users may have similar User ID and name. The display of user's Hong Kong Identity Card Number is especially essential when the user account is firstly allotted to a user who should verify that the account so allotted belongs to him.</p> <p>To address PCO's concern, ImmD is studying the feasibility of only displaying the Hong Kong Identity Card Number partially, i.e. with the last 3 digits masked, e.g. A1234XX(X).</p> <p>Before the ICAS is so modified, C&ED will remind the officers concerned to take precaution while changing their passwords in the ICAS, i.e. to change passwords when no officer is present.</p>
4.	<p><u>Chapter 7 (page 14)</u></p> <p>(a) The purpose of Record Check should be specified clearly in the screen of the ICAS workstation while the authorized officers are conducting the verification.</p>	<p><i>Accepted.</i> The purpose of Record Check "for the enforcement of the duty-free concession" will be displayed on screen.</p>

Item No.	Comments from PCO – Operation Manual	C&ED's Response
4. (con't)	(b) In the case of "No IC Arrival Record is found", there may be a case of abuse of Record Check, i.e. checking a person who is not an arrival passenger. C&ED should take preventive measures to prevent such abuse.	<p>To prevent abuse of Record Checks, C&ED will put in place the following safeguards:-</p> <ul style="list-style-type: none"> (a) at least two officers should be present in conducting a Record Check (one is the referral officer and the other is the checking officer); (b) both officers are required to sign on a Record Check Register [When the referral officer is working in a different control point where there is no ICAS terminal, he will need to sign a Record Check Request Form and fax it to the Checking Officer in one of the 3 control points where there is an ICAS terminal.]; (c) the Record Check Register will be endorsed by a Senior Inspector at the end of each tour of duty; (d) the Divisional Commander (Assistant Superintendent) will counter-check the Record Check Register with the Audit Trail Report provided by ImmD on a daily basis; and (e) the Divisional Commander will make a copy of the records in the Record Check Register covering the preceding seven days and send it to ImmD for spot checks weekly.

Item No.	Comments from PCO – Operation Manual	C&ED's Response
4. (con't)		C&ED in consultation with ImmD will explore the feasibility of installing a scanner or other viable options with a view to addressing the concern of ICAC i.e. to scan in the Hong Kong Identity Card Number instead of manual input so that the physical existence of an Identity Card for any Record Check is ensured.
5.	<u>Annex Ib (page 21)</u> The meaning of the wording “FOR OFFICIAL USE” stated in the undertaking ⁴ should be clearly specified.	<i>Accepted.</i> The wording “FOR OFFICIAL USE” has been replaced with “for the enforcement of duty-free concession”.

⁴ Undertaking denotes an undertaking signed by officers of C&ED (Inspector and above) for gaining access to the ICAS of Immigration Department. The undertaking will be given to ImmD.

Part C - Minor Amendments to Mechanism⁵

Item No.	Comments from PCO – Mechanism	C&ED's Response
1.	<p><u>Page 2</u></p> <p>(a) The purpose of Record Check in the “Warning Message” should be clearly displayed on the screen when the authorized officer is conducting the verification.</p> <p>(b) C&ED should specify the method of safekeeping and disposal of the personal data collected.</p>	<p>[Same as Item 4(a) of Part B]</p> <p>(The proposed Mechanism has been amended)</p> <p>[Same as Item 2 of Part A]</p>

⁵ Mechanism denotes Mechanism for Verification of the Departure Time of Travellers.

Item No.	Comments from PCO – Mechanism	C&ED's Response
2.	<p><u>Page 3</u></p> <p>In the case of “No IC Arrival Record is found”, there may be a case of abuse of Record Check, i.e. checking a person who is not an arrival passenger. C&ED should take preventive measures to prevent such abuse.</p>	<p>[Same as Item 4(b) of Part B]</p>
3.	<p><u>Page 4</u></p> <p>C&ED should specify the period of time of informing ImmD to disable the access password of an authorized officer who is no longer required to gain access to ICAS.</p>	<p><i>Accepted.</i> C&ED will notify ImmD seven days in advance in writing to disable the access password of an authorized officer who is no longer required to gain access to ICAS.</p> <p>(The proposed Mechanism has been amended)</p>

Appendix of Annex IV

To: AS()

Re: Application for Creation of User Identifier and Password in ICAS

The following are my personal particulars for the creation of my user identifier and password in ICAS:-

Name of applicant: _____

Rank: _____

HK I/C No.: _____

Signature of applicant: _____

Date: _____

Notice to Officer on Collection of Personal Data

1. Purpose of Collection

The data collected above will be used by the Immigration Department in the creation of your personal identifier and password for accessing ICAS.

2. Transfer of Personal Data

The Customs and Excise Department will only disclose the above personal data to the Immigration Department, or where such disclosure is authorized or required by law.

3. Access to Personal Data

Under the Personal Data (Privacy) Ordinance (Chapter 486), you have a right of access to and correction of the personal data collected by this Department. The right of access includes the right to obtain a copy of the personal data provided by you, subject to payment of a fee. Enquiries concerning the personal data collected, including access to and correction of the personal data, can be made to your Divisional Commander.



審計署
香港灣仔
告士打道七號
入境事務大樓
二十六樓

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

電話 Telephone : 2829 4251

本署檔號 Our Ref. : UB/PAC/ENG/39-3

來函檔號 Your Ref. : CB(3)/PAC/R39

28 January 2003

Miss Sandy Chu
Clerk, Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road, Central
Hong Kong
(Fax: 2537 1204)

Dear Miss Chu,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 2: The Customs and Excise Department's efforts
to protect government revenue from dutiable commodities**

Thank you for your letter of 27 January 2003, inviting me to comment on the contents of the Commissioner of Customs and Excise's letter of 25 January 2003.

From Audit's point of view, the new verification mechanism proposed by the Customs and Excise Department (C&ED) will enable it to enforce the 24-hour rule more effectively. In particular, I welcome the C&ED's proposal to widely publicise the new verification mechanism before its commencement through the mass media (see the penultimate paragraph of the Commissioner's letter). In my view, the C&ED's efforts will have a definite deterrent effect on the couriers, referred to in paragraph 2 of the Commissioner's letter, and other habitual abusers. More importantly, it will help the otherwise law-abiding citizens better understand the 24-hour rule.

To ensure that the proposed mechanism is implemented satisfactorily, the Public Accounts Committee may wish to urge the Commissioner of Customs and Excise to conduct a comprehensive post-implementation review at an appropriate time (say in three months' time) and report the results to the Committee.

Yours sincerely,

(YING Kwok-wing)
for Director of Audit



香港個人資料私隱專員公署
Office of the Privacy Commissioner for Personal Data, Hong Kong

Our Ref: 200217607
Your Ref: CB(3)/PAC/R39

By Fax No.2537 1204
29 January 2003

Clerk to Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong
Attn.: Miss Sandy Chu

Dear Sir,

**The Director of Audit's Report on the
results of value for money audits (Report No.39)**

**Chapter 2: The Customs and Excise Department's efforts
to protect government revenue from dutiable commodities**

Thank you for your letter dated 27 January 2003.

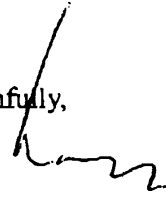
The Customs and Excise Department (C&E) has consulted the Office of the Privacy Commissioner for Personal Data in relation to their proposed mechanism to facilitate speedy verification of the departure time of travellers, and we have given our comments on the proposed mechanism based on the information provided by them. We welcome C&E's responses to our comments as set out in the Annex IV enclosed with your letter, though they may wish to expand on the following:

- (a) Item no.1 of Part B – to give a purpose statement to their officers in respect of the collection of the officers' activity log regarding their access to travellers' records.

(b) Item no.4(b) of Part B – to have in place an “alert” system whereby all cases of “No IC Arrival Record is found” be brought to the attention of the supervising officers and be investigated so as to prevent any unauthorized access to the data by authorized personnel.

Should you have any question on the above, please feel free to contact me or our KT Chan (Mr), Senior Personal Data Officer at 2877 7123 or 2877 7198 respectively.

Yours faithfully,



(Tony Lam)

Acting Privacy Commissioner for Personal Data

c.c. Secretary for Financial Services and the Treasury
(Fax no.2147 5239)
Commissioner of Customs and Excise
(Fax no.2854 1959)
Director of Immigration (Fax no.2519 6580)
Director of Audit (Fax no.2583 9063)

香港海關
香港中環統一碼頭道
海港政府大樓 7 字樓



**CUSTOMS AND EXCISE DEPARTMENT
HONG KONG**

7/F, Harbour Building
38 Pier Road, Central
Hong Kong

本署檔號 Our Ref : L/M to HDC/AD/36 IV

來函檔號 Your Ref : CB(3)/PAC/R39

本署電話 Our Tel : 2852 3345

圖文傳真 Our Fax : 2854 1959

5 February 2003

Public Accounts Committee
(Attn : Miss Sandy Chu)
Legislative Council Building
8 Jackson Road, Central
HONG KONG

Dear Miss Chu,

**The Director of Audit's Report on the
result of value for money audits (Report No.39)**

**Chapter 2 : The Customs and Excise Department's efforts
to protect government revenue from dutiable commodities**

I refer to the reply letter of the Privacy Commissioner for Personal Data to the Public Accounts Committee dated 29 January 2003.

In response to the two additional suggestions mentioned in the said letter, we have consulted the Privacy Commissioner again and revised our operating procedures accordingly. (Please see supplementary information at Annex)

Yours sincerely,

(K Chow)

for Commissioner of Customs & Excise

c.c. Privacy Commissioner for Personal Data
Secretary for Financial Services and the Treasury
Director of Immigration
Director of Audit

Supplementary Comments from
the Office of the Privacy Commissioner for Personal Data (PCO)

Item No. 1 of Part B

Item No.	Supplementary Comments from PCO	C&ED's Response
1.	<p><u>Chapter 5 (page 8)</u> C&ED should give a purpose statement to their officers in respect of the collection of the officers' activity log regarding their access to travellers' record.</p>	<p><i>Accepted.</i> A revised purpose statement is prepared at <u>Appendix</u>.</p>

Item No. 4(b) of Part B

Item No.	Supplementary Comments from PCO	C&ED's Response
4.	<p>Chapter 7 (page 14) C&ED should have an "alert" system whereby all cases of "No IC Arrival Record is found" be brought to the attention of the supervising officers and be investigated so as to prevent any unauthorized access to the data by authorized personnel</p>	<p><i>Accepted.</i> C&ED's internal instruction (A General Order) will cover the handling of "No IC Arrival Record is found" cases to prevent abuse of the facilities.</p> <p>C&ED's checking officer will be required to inform his supervisor before completing the processing of such a case. The supervisor will take steps to ensure no malpractice has occurred in the case and endorse on the Record Check Register.</p> <p>ImmD will also conduct other movement record checks on those "No IC Arrival Record is found" cases shown on the daily Audit Trail Report generated by the ICAS. ImmD will refer cases with irregularities to C&ED for follow-up investigation.</p>

To: AS()

Re: Application for Creation of User Identifier and Password in ICAS

The following are my personal particulars for the creation of my user identifier and password in ICAS:-

Name of applicant: _____

Rank: _____

HK I/C No.: _____

Signature of applicant: _____

Date: _____

Notice to Officer on Collection of Personal Data

1. Purpose of Collection

The data collected above will be forwarded to the Immigration Department for the creation of your personal identifier and password for accessing ICAS, and preparation of the activity log of your access to ICAS for record purpose. The data may also be used in an investigation of any suspected abuse on Record Check, or a related prosecution or disciplinary action.

2. Transfer of Personal Data

The Customs and Excise Department will only disclose the above personal data to the Immigration Department, or where such disclosure is authorized or required by law.

3. Access to Personal Data

Under the Personal Data (Privacy) Ordinance (Chapter 486), you have a right of access to and correction of the personal data collected by this Department. The right of access includes the right to obtain a copy of the personal data provided by you, subject to payment of a fee. Enquiries concerning the personal data collected, including access to and correction of the personal data, can be made to your Divisional Commander.

香港海關

香港中環統一碼頭道38
號
海港政府大樓九樓



**HONG KONG
CUSTOMS AND EXCISE DEPARTMENT**
9/F., Harbour Building
38 Pier Road, Central
Hong Kong

本署檔案 Our Ref.: (7) in HDC/AD/36 III
來函檔號 Your Ref.: CB(3)/PAC/R39
本署電話 Our Tel.: 2852 3345
圖文傳真 Our Fax.: 2854 1959

6 January 2003

Public Accounts Committee
(Attn.: Miss Sandy Chu)
Legislative Council Building
8 Jackson Road, Central
Hong Kong

Dear Miss Chu,

**The Director of Audit's Report on the
Results of value for money audits (Report No. 39)**

**Chapter 2 : The Customs and Excise Department's efforts
to protect government revenue from dutiable commodities**

Thank you for your letter of 11 December 2002.

I append below the information that you requested :

- (a) The C&ED's limited resources at Lowu Control Point have always been focused on the front-line enforcement work to interdict smuggling activities. Before the recent audit exercise, we only kept an estimated figure on passengers "checked" at Lowu Control Point for internal management purpose. There was no detailed breakdown figure on the various means through which travellers were checked. Since September 2002, we have adopted Audit Commission's recommendation to improve our record keeping system to capture such breakdown figures.

Currently, we have 25 narcotic detector dogs. In 2001 and 2002 , 7 drug seizures with a total value of HK\$2 million were detected by the detector dogs. We plan to increase 2 specially trained dogs in 2003 for detection of bombs and explosives.

- (b) The C&ED adopts a risk management approach in processing passengers at various Control Points. Internal guidelines have been distributed to front-line officers to assist them in applying risk indicators for passenger selection. Such risk indicators include a passenger's behaviour/physical appearance, passport information, and the type and content of baggage he/she is carrying. Prevailing smuggling trends and methods, and the background of a particular passenger will also be important elements to assist the Customs officers' judgment.

Selection of a passenger for checking is an individual assessment based on the experience of a Customs officer. Therefore, we do not set any performance target on the number of passengers to be selected for Customs check.

- (c) The operational statistics required for November 2002 are attached at Annex.

Yours sincerely,



(K Chow)

for Commissioner of Customs & Excise

c.c. Secretary for Financial Services and the Treasury
Director of Immigration
Director of Audit

**Breakdown Data of Inbound Travellers Checked
in November 2002 at Lowu Control Point**

a	b	c	d	e	f	g	h	Total
Target Surveillance	Sniffed by Narcotics Dogs	Oral Processing	Baggage Exam	X-ray Scanning	Metal Detector	Ion Scan	Personal Search	
186,461	12,588	91,183	42,714	42,385	75	-	1,007	376,413 ⁽¹⁾

Notes :

- (1) 9.2% of the total 4,090,440 inbound travellers in Nov 2002 were checked under [a – h].
- (2) **Inbound travellers intercepted for checking under [c-h]** : 177,364 (monthly)
: 5,912 (daily)
: 4.34% of daily average of 136,348 [4,090,440 ÷ 30] inbound travellers
- (3) Daily average number of Customs officers engaged in all [i.e. a-h]passenger processing duties : 48 (excluding officers on other duties/leave)
- (4) **Daily average number of Customs officers engaged in [c-h] passenger processing duties** : 40
- (5) On average, around **10 officers are engaged in baggage examination counter duties** [i.e. c-d] at any time during the AM or PM shift, with an additional 3 officers from SWING shift to relieve officers on meal/hygiene breaks and to provide reinforcement (i.e. 23 officers in whole day).

(6) Daily average no. of inbound travellers intercepted for checking by each officer :

- for oral processing and baggage examination at counters [c-d] only : $\frac{(91,183 + 42,714) \div 30}{23} = 194$
- for [c-h] types of checking only : $\frac{177,364 \div 30}{40} = 148$


庫務署 The Treasury

香港灣仔告士打道七號入境事務大樓 Immigration Tower, 7 Gloucester Road, Wan Chai, Hong Kong.
 電訊號碼 Telex No.: HX 60770
 傳真號碼 Fax No.: (852) 2598 9273

電話 Telephone: 2829 5128
 來函檔號 Your Ref.: CB(3)/PAC/R39
 本署檔號 Our Ref.: (16) in C/AU/3 Pt. 9

17 December 2002

Miss Sandy CHU
 Public Accounts Committee
 Legislative Council
 Legislative Council Building
 8 Jackson Road,
 Central
 Hong Kong

Dear Miss Chu,

**The Director of Audit's Report on the
 results of value for money audits (Report No. 39)**

Thank you for your letter dated 8 December 2002. I am pleased to reply as follows :

(a) *Deed for the Special Finance Scheme for Small and Medium Enterprises (SMEs)*

I enclose a copy of the Deed (Appendix 1) together with two Supplementary Deeds (Appendices 2 and 3), one for extending the period of guarantees to 24 months and changing the risk-sharing factor from 50:50 to 70:30 and the other for removing the provision for the granting of matching deposits to participating lending institutions (PLIs).

(b) *Defaulted guaranteed loans*

(i) *the PLIs associated with defaulted guaranteed loans*

Under the Deed, a PLI is entitled to submit to the Government a claim for compensation if a borrower has failed to repay a loan on maturity. The total number of claims received by the Government as at 6 December 2002 was 1,936. At Appendix 4 is a list of names of the PLIs and the number of claims they have respectively submitted, together with the amounts involved.

- (ii) *whether the Treasury has detected irregularities similar to those indicated in Audit's findings of the six cases (paragraph 2.32 of the Audit Report)*

The "irregularities" described in the Audit Report are related to :

- assessment of the credit-worthiness of borrowers and offloading of existing loans onto the scheme :

The Treasury has noticed other cases where borrowers were reported to be in financial difficulties similar to those described in the six cases examined in the Audit Report. There were also cases where PLIs transferred existing loans to the scheme. The Treasury has previously referred many such cases to the Department of Justice, the Commerce, Industry and Technology Bureau and the Hong Kong Monetary Authority for consideration. However, as pointed out in paragraph 2.33 of the Audit Report, the Government places complete reliance on a PLI in the assessment of the credit-worthiness of a borrower and there is no restriction in the Deed on the use of the guaranteed loans, including repaying other loans granted by the PLIs.

- granting of a guaranteed loan before the date of the Treasury's notification of the result of application.

Apart from the two cases quoted in the Audit Report (please see paragraph (d) below), we have not so far noticed any cases where a guaranteed loan was granted before the date of the Treasury's notification of the result of application.

- (c) *Of the 1362 claims being processed, how many SMEs have declared bankrupt or applied for liquidation and whether PLIs foresaw that the guaranteed loans to these SMEs would eventually become defaulted loans*

Under the Deed, a PLI can submit a claim for compensation when an SME has failed to repay a loan on maturity, irrespective of whether the SME has or has not become bankrupt or liquidated. After receiving compensation from the Government, the PLI is required to continue its pursuit of repayments from the SME until further recovery efforts against the SME are considered futile, e.g. when the SME has become bankrupt, liquidated or untraceable. As the 1362 claims (reduced to 1351 as at 6.12.2002) have not yet been paid by the Government because they are being checked or additional information is being sought from the PLIs concerned, we do not have the record yet of the number of SMEs out of these 1,351 cases which have been or will be declared bankrupt or have applied for liquidation.

We are not aware of any PLIs who foresaw in their assessments of creditworthiness that their loans to the SMEs concerned would eventually become defaulted loans, but in reply to a standard questionnaire designed by the Trade and Industry Department (Appendix 5), some PLIs did indicate that they would not have approved the loans in the absence of a guarantee from the Government.

(d) *Case study 2 and case study 3*

The PLI in these two cases has now confirmed in writing that one of the loans concerned was granted on the date of the Treasury's notification of the result of application and the other five days afterwards. We are seeking further clarification from this PLI. If there is evidence of the practices reported in paragraph 2.32 of the Audit Report, we will certainly seek legal advice.

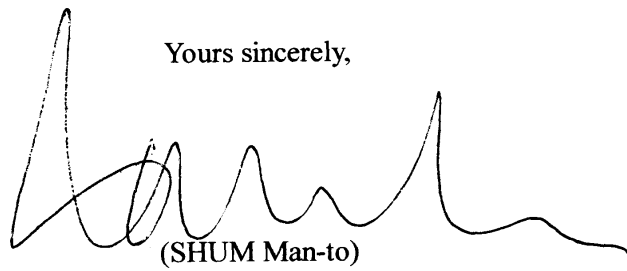
(e) *Default position as at 6 December 2002 and recovery actions*

The position as at 6 December 2002 was as follows :

Default rate for expired and released guarantees :	7.54%
Number of defaulted guarantee loans	
paid	574
being processed	<u>1351</u>
	<u>1925</u>
	=====
Total amount of guaranteed payments (\$million)	
made to PLIs	\$277.9
less amount recovered	<u>16.4</u>
	<u>\$261.5</u>
	=====

After receiving the Government's compensation, PLIs are required to continue their recovery actions, including legal actions where necessary, against the SMEs concerned. Any money recovered by PLIs is shared between the PLIs and the Government according to the agreed risk-sharing factor and the Government has received \$16.4 million so far.

Yours sincerely,



(SHUM Man-to)
Director of Accounting Services

c.c. Secretary for Financial Services and the Treasury
Secretary for Commerce, Industry and Technology
Director-General of Trade and Industry
Director of Audit

****Note by Clerk, PAC: Appendices 1, 2, 3 and 4 not attached.***

中小型企業特別信貸計劃小型問卷調查
Mini-Survey on the Special Finance Scheme for Small and Medium Enterprises

此問卷調查旨在研究中小型企業特別信貸計劃能否幫助中小型企業向貸款機構融資。所得資料會用作評估計劃整體效用，並不涉及對個別貸款機構的評核。
 This objective of this survey is to evaluate whether the Special Finance Scheme for SMEs has facilitated SMEs to obtain finance from lending institutions. The information obtained will be used for evaluating the overall effectiveness of the Scheme only, and not for assessing individual lending institutions.

請就每一個信貸保證申請填寫以下的問卷，並連同有關的信貸保證申請書(表格 TRY493)遞交庫務署。請用獨立問卷填寫每個申請個案。

Please complete the following questionnaire for each application for guarantee and send it back to the Treasury together with the Application for Guarantee Form (Form TRY493). Please use separate questionnaire for each application.

貸款機構 Lending Institution : _____ Limited
 借款人 Borrower : Lu _____ Fty.

- | | |
|---|--|
| 1. 有關貸款是批給新客或舊客？
Whether the loan facility is granted to a new customer or an existing customer ? | 新 New <input checked="" type="checkbox"/>
舊 Existing <input type="checkbox"/> |
| 2. 若沒有特別信貸計劃的擔保，會否批出有關貸款？
Whether the loan will be approved without the guarantee offered by the Special Finance Scheme ? | 會 Yes <input type="checkbox"/>
不會 No <input checked="" type="checkbox"/> |
| 3. 若沒有政府的擔保，所批出的貸款金額會否減少？
Will the facility amount approved be reduced without Government's guarantee ? | 會 Yes <input type="checkbox"/>
不會 No <input checked="" type="checkbox"/> |
| 4. 向貸款人所收取的利息，有否因政府提供信貸保證而有所降低？
Whether the interest rate charged on the borrower has been lowered due to Government's guarantee ? | 有 Yes <input type="checkbox"/>
沒有 No <input checked="" type="checkbox"/> |
| 5. 這個申請用了多少個工作天審批？
How many working days were needed to process this application ? | <div style="display: flex; align-items: center;"> <div style="flex: 1;"> ≤ 7 <input type="checkbox"/>
 8-14 <input type="checkbox"/>
 15-28 <input checked="" type="checkbox"/>
 > 28 <input type="checkbox"/> </div> <div style="flex: 0.2; text-align: center;">天</div> <div style="flex: 0.8;">days</div> </div> |

- 多謝你填寫此問卷 -

- Thank you very much for taking the time to complete this questionnaire -

Hong Kong Monetary Authority 香港金融管理局



Our Ref. : G12/108C

31 December 2002

Miss Sandy Chu
The Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Miss Chu,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

Chapter 5: Special Finance Scheme for small and medium enterprises

I refer to your letter to Mr Joseph Yam of 21 December 2002. I am replying on his behalf.

We do not have statistics on "default rate" of loans granted by lending institutions as requested. One alternative indicator which you may consider useful is the level of non-performing loans¹ of retail banks² in Hong Kong, which are 4.13%, 4.41% and 5.03% for the quarters of September 2002, June 2002 and March 2002 respectively.

As for figures relating to the range of "non-performing loans", we are unable to provide them to your office as this will involve disclosure of information of individual banks, which is prohibited under section 120 of the Banking Ordinance.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Nelson Man".

(Nelson Man)
Head (Banking Development)

¹ Loans on which interest has been placed in suspense or on which interest accrual has ceased.

² Retail banks comprise all the locally incorporated banks plus a number of the larger foreign banks which are not locally incorporated but whose operations are similar to those of the locally incorporated banks, in that they operate a branch network and are active in retail banking.

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Our Ref : CIB CR 12/10/2



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30 December 2002

Clerk to Public Accounts Committee
(Attn : Miss Sandy CHU)
Legislative Council Building
8 Jackson Road,
Central, Hong Kong
(Fax : 2537 1204)

Dear Ms CHU,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 5 : Special Finance Scheme for
small and medium enterprises**

Thank you for your letter dated 8 December 2002. Please find
attached our reply to item (c) for the Committee's perusal please.

Yours sincerely,


(Anita Chan)

for Secretary for Commerce, Industry and Technology

c.c.

Secretary for Financial Services and the Treasury	(Fax no. 2537 1736)
Director-General of Trade and Industry	(Fax no. 2789 2491)
Director of Accounting Services	(Fax no. 2598 9273)
Director of Audit	(Fax no. 2583 9063)

**The Director of Audit's Report on the
Results of the Value for Money Audits (Report No. 39) -
Additional Information to the Public Accounts Committee regarding the
Special Finance Scheme for Small and Medium Enterprises
(Hearing on 4 December 2002)**

(c) regarding the six guarantee cases selected by Audit for study (paragraph 2.32 of the Audit Report refers), Audit considers that at the time of the borrowers' applications for the guaranteed loans, the PLIs did not have strong justifications for supporting their assessments that the borrowers were creditworthy; as the objective of the Special Finance Scheme for Small and Medium Enterprises (the Scheme) was to help creditworthy SMEs, whether there was a departure from the objective in the six cases; if so, the follow-up actions in this regard.

The fundamental objective of the Scheme is to provide relief to SMEs in the face of the unprecedented liquidity crunch in 1998. It was commonly acknowledged that many SMEs were facing severe cashflow problems at the time when the Scheme was launched. Indeed, a lot of them were no longer able to make repayments to existing loans as scheduled. Under the circumstances, we consider that allowing SMEs to restructure their loans was in line with the objective of the Scheme.

In addition, we wish to point out that SMEs with overdue repayments were not necessarily unworthy of credit. For the six cases in question, we noted that the PLIs concerned decided to lend to the SMEs because their assessment was that the difficulties of these enterprises were only temporary in nature and could be relieved through loan restructuring. Indeed a few of these SMEs had managed to repay part of the loan before they subsequently failed to continue doing so.

We have made clear from the start that the Government would rely on the PLI to exercise their usual prudent professional judgement in assessing whether an individual SME was credit-worthy. But PLIs are bound by the provisions of the Deed signed with the Government that sets out the rights and obligations of each party. For the six cases in question, Members may wish to note that the Director of Accounting Services, in consultation with the Department of Justice, is reviewing them to ascertain whether the PLIs concerned have breached any requirements stipulated in the Deed. The same will also be done on all other claims for

compensation under the Scheme. If a PLI was found to have breached the requirements of the Deed, the Government may seek to recover the amount from the PLI for a claim already paid and refuse to make payments for a claim being processed.

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Our Ref : CIB CR 12/10/2

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19 December 2002

Clerk to Public Accounts Committee
(Attn : Miss Sandy CHU)
Legislative Council Building
8 Jackson Road,
Central, Hong Kong

Dear Ms CHU,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 5 : Special Finance Scheme for
small and medium enterprises**

Thank you for your letter dated 8 December 2002. The information requested is attached for the Committee's perusal please. We shall separately let you have the reply to item (c) as soon as practicable.

Yours sincerely,


(Anita Chan)

for Secretary for Commerce, Industry and Technology

c.c.

Secretary for Financial Services and the Treasury	(Fax no. 2537 1736)
Director-General of Trade and Industry	(Fax no. 2789 2491)
Director of Accounting Services	(Fax no. 2598 9273)
Director of Audit	(Fax no. 2583 9063)

**The Director of Audit's Report on the
Results of the Value for Money Audits (Report No. 39)
Additional Information to the Public Accounts Committee regarding the
Special Finance Scheme for Small and Medium Enterprises**

- (a) The monthly amount of guarantees offered by the Government in the period leading to the review of the operation of the Special Finance Scheme for Small and Medium enterprises (the Scheme) in December 1998.*

The Special Finance Scheme for SMEs (the Scheme) was launched in August 1998. The Administration conducted a review of the Scheme in December 1998. The review recommended, among other things, that :

- (a) the risk sharing ratio between the Government and participating lending institutions (PLIs) should be revised from 50:50 to 70:30;
- (b) the maximum guarantee period should be extended from one year to two years; and
- (c) the “no overdue loan” declaration should be removed.

Revisions to the Scheme were endorsed by the Finance Committee of the Legislative Council and put in place in late April 1999.

For the eight months from August 1998 to April 1999, the amount of guarantee approved was about \$856 million (The entire amount of the initial commitment of \$2.5 billion was used up by end of August 1999, i.e. four months after the implementation of the aforementioned revisions.)

Monthly breakdown of the number of approved cases and the amount of guarantee approved during the period from August 1998 to April 1999 is as follows :

	<u>Number of approved cases</u>	<u>Amount of guarantee approved</u>
Aug. 1998	0	0
Sep. 1998	93	about \$88 million
Oct. 1998	201	about \$138 million
Nov. 1998	240	about \$161 million
Dec. 1998 (The review was conducted)	196	about \$116 million
Jan. 1999	186	about \$106 million
Feb. 1999	127	about \$57 million
Mar. 1999	228	about \$91 million
Apr. 1999	245	about \$99 million
Total	1 516	about \$856 million

(b) In view of the consequences of the absence of a clear provision in the Deed on the prohibition of offloading bad loans onto the Scheme (with reference to paragraphs 2.21(b) and 2.24(a)), whether the Deed should have been revised to introduce additional safeguards against the possible abuse of the scheme in this regard by participating lending institutions (PLIs); if so, the direction of the revision;

At the time when the Scheme was devised, SMEs in Hong Kong were facing severe cashflow problems and were unable to secure finance due to the liquidity crunch. Indeed, many were no longer able to make repayments to existing loans as scheduled. Had we stated in the Deed that loan restructuring was disallowed, lending institutions would simply recall the loans, and a lot of SMEs would have been forced to wind up their businesses as a result. This would have been against the objective of setting up the Scheme which aimed at relieving the financial hardship of SMEs when Hong Kong was undergoing a particularly difficult time after the Asian Financial crisis.

In view of the unique liquidity crunch at the time and judging from the encouraging outcomes that more than 92% of the loans guaranteed under the Scheme are performing or are fully repaid, we consider that we had made the right decision not to prohibit loan restructuring under the Scheme in the Deed. But this does not mean that we do not consider it necessary to provide additional safeguards for similar funding schemes when the circumstances are different. Indeed when we launched the SME Business Installations and Equipment Loan Guarantee Scheme in 2001, we had included in the Deed provisions expressly disallowing borrowers and lenders to use the scheme for loan restructuring, partly because of the improved financing environment for

SMEs as compared with 1998. We shall continue to devise our SME funding schemes with the aim of striking the right balance between upholding fiscal prudence and providing necessary support to SMEs.

(d) Before the Scheme was launched, whether the then Trade and Industry Bureau (TIB) had given instructions to the Department of Justice on the drafting of the Deed regulating the prohibition of offloading bad loans onto the Scheme;

(e) If the answer to (d) is in the affirmative, please provide the following information:

- (i) a copy of the comments of the Department of Justice on this point;*
- (ii) if the Department of Justice had considered that there should be a clause in the Deed prohibiting the offloading of bad loans, the officer(s) in the TIB made the decision for not including such a clause in the Deed; and when and why the decision was made;*

We can find no written record of the then Trade and Industry Bureau (TIB) giving instructions to the Department of Justice (DOJ) on the drafting of the Deed regarding the prohibition of offloading bad loans onto the Scheme. As described in the Audit Department's Report, TIB has however explained to the relevant parties, including the Hong Kong Monetary Authority and the Treasury, that it considered the Deed need not be amended to include provisions disallowing the restructuring of loans.

(f) *The respective amounts of the funds available for the Scheme eventually used for helping SMEs and for settling claims for compensation from PLIs*

The relevant statistics are as follows-

- initial capital amount (i.e. expected total expenditure): \$2.5 billion
- expected total commitment : \$5 billion
- actual amount of guarantee approved : \$5.8 billion ^(Note)
- net amount of compensation claimed as at 12.12.2002 (including cases being processed): \$439 million

Note : The actual amount of guarantee provided by the Government is greater than \$5 billion, because funds released from matured loans were ploughed back for providing guarantee as well..

(g) *When launching similar schemes in future, how the Government could strike a balance between competing objectives or principles of the schemes.*

When launching similar schemes in future, we would aim to strike the right balance between achieving the objectives of the schemes (including the market-driven principle), and putting in the necessary safeguards to avoid abuse of the schemes. We would also consult widely before deciding on the means that will maximize the usefulness of the schemes while ensuring that public money will be used properly.

A case in point is the SME Business Installations and Equipment Loan Guarantee Scheme (BIG) launched in December 2001 which aims at helping

SMEs get loans to acquire business installations and equipment for enhancing their competitiveness. To achieve this objective as well as to ensure that public money is properly spent, we have made it clear that SMEs are not allowed to use the scheme to refinance business installations and equipment already in their possession or in the possession of their associates. The Deed signed with PLIs also expressly disallows borrowers and lenders to use the scheme to repay, restructure or repackage other loan facilities, including doubtful or bad loans.

We will continue to maintain the right balance in implementing the latest recommendations of the Small and Medium Enterprises Committee on enhancing the effectiveness of BIG.

In addition, after the launch of any loan guarantee scheme, we would continue to monitor closely the performance and effectiveness of the scheme and, if necessary, make adjustments to ensure that we are indeed striking the right balance between competing considerations.

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31 December 2002

Clerk to Public Accounts Committee
(Attn : Miss Sandy CHU)
Legislative Council Building
8 Jackson Road,
Central, Hong Kong

Dear Ms CHU,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 5 : Special Finance Scheme for
small and medium enterprises**

Thank you for your letter of 21 December 2002. Our reply is as follows :

During the period from August 1998 to April 1999, the Treasury received 1,535 applications under the Special Finance Scheme for Small and Medium Enterprises, involving a total guarantee amount of about \$866 million. Monthly breakdown of the number of applications received and the amount of guarantee sought is at Annex.

Yours sincerely,

(Anita Chan)

for Secretary for Commerce, Industry and Technology

c.c.

Secretary for Financial Services and the Treasury (Fax no. 2537 1736)

Director-General of Trade and Industry (Fax no. 2789 2491)

Director of Accounting Services (Fax no. 2598 9273)

Director of Audit (Fax no. 2583 9063)

Annex

**Monthly breakdown of the number of applications received
and the amount of guarantee sought
(During the period from August 1998 to April 1999)**

	<u>Number of applications received</u>	<u>Amount of guarantee sought</u>
Aug. 1998	0	0
Sep. 1998	93	about \$88 million
Oct. 1998	201	about \$138 million
Nov. 1998	240	about \$161 million
Dec. 1998 (The review was conducted)	197	about \$117 million
Jan. 1999	188	about \$107 million
Feb. 1999	131	about \$58 million
Mar. 1999	234	about \$93 million
Apr. 1999	251	about \$104 million
Total	1,535	about \$866 million

**For discussion
on 23 April 1999**

FCR(1999-2000)5

ITEM FOR FINANCE COMMITTEE

LOAN FUND

HEAD 275 - SMALL AND MEDIUM ENTERPRISES

Subhead 101 Special finance scheme for small and medium enterprises

Members are invited to approve changes to the Special Finance Scheme for Small and Medium Enterprises.

PROBLEM

We have reviewed the operation of the Special Finance Scheme for Small and Medium Enterprises (the Scheme). We need to decide whether to implement the changes recommended in the review.

PROPOSAL

2. We propose to adopt the recommendations made in the review of the Scheme as summarized in paragraph 5 below.

JUSTIFICATION

The Review

3. The Government has been closely monitoring feedback on the Scheme since its launch in August 1998. In December 1998, we embarked on a comprehensive review to assess the feedback and to examine ways to improve the operation of the Scheme. As part of the review, we have conducted three surveys to gather the views of successful applicants, participating lending institutions (PLIs) and Small and Medium Enterprises (SMEs) which have not made use of the Scheme or have failed to obtain credit facilities under the Scheme. We have

/also

Encl. 1

also consulted the major political parties as well as a number of bankers. The detailed findings of the review and our recommendations are set out in the report at Enclosure 1.

4. In general, we have found that, for successful SME applicants, the Scheme has achieved its objective of helping them obtain loans from lending institutions. Although the liquidity problem has eased in the past few months, the need for financing assistance remains strong because of the recession. However, it seems that PLIs tend to remain over-cautious, thus making it very difficult for many SMEs to obtain financing under the Scheme. There are calls to revise the Scheme to induce the PLIs to lend to SMEs more readily.

5. The review report has made the following recommendations -

- (a) the operation of the Scheme should continue;
- (b) the four existing underlying principles, viz., market-driven basis, risk-sharing, risk-capping and administrative simplicity, should continue to apply;
- (c) the assessment of applications should continue to be conducted by the PLIs;
- (d) the risk-sharing ratio between the Government and the PLIs should be revised from the present 50:50 split to 70:30;
- (e) the maximum guarantee limit of \$2 million should remain unchanged;
- (f) the current one-year maximum guarantee period should be extended to two years;
- (g) the requirement for the PLIs to declare that the applicant has not missed loan repayments to the PLIs for more than 60 days after the due date in the past 12 months should be removed; and
- (h) additional injection into the Scheme is unlikely given the temporary nature of the Scheme. The longer term question of assistance for SMEs should be dealt with separately.

/Consideration

Consideration

6. As regards the *continued operation of the Scheme*, we have from the beginning made it clear that the Scheme will not be a permanent measure. Nonetheless, while the liquidity problem of the banks may have eased, for many firms the difficulty of obtaining financing has remained due to the overall economic climate and the drastic decrease in collateral values. There is therefore a need for the Scheme to continue for the time being. In keeping with the short-term nature of the Scheme, the current *underlying principles*, with the *PLIs assessing the applications*, should remain in place.

7. As regards the *risk-sharing ratio*, the overwhelming majority of the SMEs and other parties consulted consider the current ratio of 50:50 as the single most important impediment to the PLIs extending loans to SMEs. At the same time, we are aware of the concern that we should not increase the Government's share of the risk only to benefit the PLIs. We need to strike a balance between encouraging lending to SMEs and safeguarding the proper use of public money. We believe that the proposed 70 (Government) : 30 (PLIs) ratio would not excessively tilt the balance. The PLIs would still have to look after their own share of the risk. With the new risk-sharing ratio, the maximum guarantee limit of \$2 million will effectively cap the maximum loan available to SMEs at \$2.86 million (\$2 million being 70% of \$2.86 million) compared with the current effective cap of \$4 million¹. However, in view of the relatively small size of the Government guarantee required so far for the successful applications (less than \$1 million on average), we believe that the *maximum guarantee limit* of \$2 million would remain sufficient even when the risk-sharing ratio is changed.

8. As regards the *maximum guarantee period*, we have received many representations that it is too short. While extending the guarantee period could lead to a reduction in the number of beneficiaries under the Scheme, we consider that the change would enable the Scheme to expand its scope of assistance to cover those SMEs requiring loans of longer duration. On balance, we recommend that the maximum guarantee period be extended to two years to provide greater flexibility.

9. The *60-day declaration requirement* has been introduced as a means to discourage the PLIs from off-loading bad loans on to the Scheme. As the Deed between the Government and the PLIs already requires the latter to assess the

/applications

¹ There is no Government-imposed cap on the loan size.

applications on a prudent basis, this declaration requirement is no more than an information-gathering device. So far, except for one case, we have approved all cases declared by the PLIs under the 60-day declaration requirement. It is therefore doubtful whether this requirement serves any useful purpose. More importantly, it is clear from the representations we have received that this requirement has become a disincentive for the PLIs to make full use of the Scheme. We therefore suggest to remove this requirement.

10. Given the temporary nature of the Scheme, additional funding is unlikely in the near future. Government's commitment under the Scheme should remain at \$2.5 billion. Nonetheless, we are looking into various possibilities to provide assistance to SMEs on a longer term basis. We shall consult interested parties when more concrete proposals are available.

11. We believe that the proposed changes outlined above should make the Scheme more user-friendly and provide a greater incentive for the PLIs to extend loans to SMEs while still upholding the market driven principle.

FINANCIAL IMPLICATIONS

12. The proposed changes to the Scheme will involve no additional funding or staffing requirement. The proposed increase in the risk-sharing ratio could induce more PLIs to extend loans to SMEs, thus increasing the rate at which the funding of the Scheme is drawn down. In the event of default payment by approved SME borrowers, the Government would have to meet larger claims arising from the proposed increase risk-sharing ratio.

BACKGROUND INFORMATION

13. As part of the package of special relief measures announced by the Government on 22 June 1998, the Scheme aims to help SMEs to cope with the liquidity crunch problem and to secure bank loans to meet genuine commercially viable business needs. On 31 July 1998, this Committee approved a financial commitment of \$2.5 billion for the establishment of the Scheme. The Scheme was launched on 24 August 1998. Under the Scheme, the Government acts as the guarantor, in respect of each approved loan, for up to 50% of the approved loan or \$2 million, whichever is the less, for up to 365 days.

/14.

14. As of 8 April 1999, we received a total of 1 335 applications under the Scheme. All except one was approved. However 21 applicants subsequently withdrew their applications. Three default cases was registered. The cumulative guarantee and the loan involved amounted to \$777 million and \$1,585 million respectively. The detailed statistics showing the various aspects of the performance of the Scheme as of 8 April 1999 are set out at Enclosure 2.

Encl. 2

Trade and Industry Bureau
April 1999

**Note by Clerk, PAC: Enclosures 1 and 2 not attached.*

For discussion
on 31 July 1998

ITEM FOR FINANCE COMMITTEE

LOAN FUND

NEW HEAD "SMALL AND MEDIUM ENTERPRISES"

New Subhead "Special finance scheme for small and medium enterprises"

Members are invited to approve the creation of a new Head "Small and Medium Enterprises" under the Loan Fund and, under the new Head, a new Subhead "Special finance scheme for small and medium enterprises" with a commitment of \$2.5 billion for the establishment of a special finance scheme for small and medium enterprises.

PROBLEM

Some small and medium enterprises (SMEs) have difficulties in obtaining loans from lending institutions or are having their credit line cut in the current liquidity crunch.

PROPOSAL

2. We propose to create a new Head "Small and Medium Enterprises" under the Loan Fund and under the new Head, a new Subhead "Special finance scheme for small and medium enterprises" with a commitment of \$2.5 billion for setting up a special finance scheme (the Scheme) to provide guarantees for loans or credit facilities extended by recognised lending institutions to SMEs.

JUSTIFICATION

3. The Hong Kong economy is experiencing a severe and abrupt downturn as a result of the regional financial turmoil. Due to the cutback of credit lines by international banks in Asia (including Hong Kong) and the concerns over the credit risk, many banks have tightened their lending policy.

4. Whilst the liquidity crunch is affecting all businesses, SMEs which constitute about 98% of enterprises in Hong Kong are particularly hard hit. Some SMEs have had their bank loans or credit facilities cut despite their credit worthiness, good track record and business prospects. We believe that there is a case to establish a scheme to provide guarantees for loans or credit facilities extended by recognised lending institutions to SMEs.

5. The design of the new Scheme is based on the following principles -

a. Market driven

The operation of the Scheme must be market driven. The intention is to help those SMEs which are credit worthy, have a good track record and can demonstrate business prospects but are unable to obtain adequate financing from lending institutions due to the credit crunch.

b. Risk sharing

The risk of default and late payment should be shared between the lending institutions and the Scheme.

c. Risk capping

There should be an upper limit to the total amount of credit guarantees offered by the Government under the Scheme. There should also be a ceiling for the maximum amount of guarantee each company may obtain from the Government.

d. Administrative simplicity

The new Scheme should be simple and easy to administer.

Details of the Scheme

6. Under the proposed Scheme, the Government will act as the guarantor for loans to SMEs approved by participating lending institutions. The maximum amount of the guarantee in each case is either \$2 million or 50% of the approved loan, whichever is the less. In addition, subject to the exception mentioned in paragraph 16 below, we will place with the lending institution, if it so requests, a deposit up to the amount of the guarantee so that its "loan to deposit" ratio will be maintained at a reasonably comfortable level whilst loans are extended to SMEs. We believe that this added feature would be welcome by lending institutions given the current tight liquidity of the banking system. The proposed framework of the Scheme is described below.

(A)Assessment of Applications

7. Government will rely on lending institutions to exercise their usual prudent professional judgement in assessing the credit worthiness of the applicants. To ensure equitable distribution of available resources, Government will implement a system to keep track of successful applicants so that no SME may at any one time enjoy a Government guarantee exceeding the ceiling of \$2 million under the Scheme.

(B)Eligibility

8. All companies registered in Hong Kong are eligible. However, the Scheme will not cover loan transactions between two lending institutions or loan transactions between a lending institution and any of its related companies. This is to avoid possible conflicts of interest on the part of the lending institutions.

(C)Use of Loans

9. Loan applications are subject to the usual prudent scrutiny by the lending institutions. Other than those limitations on the use of the loans which may be imposed by the lending institutions, the Scheme will not impose limitations on the specific uses of the loans.

(D)Ceilings

10. Each firm may apply, through a participating lending institution, for a guarantee from Government of up to \$2 million or an amount up to 50% of the loan offered by the lending institution, whichever is the less. The loan may be offered as a term loan or in the form of a new credit line.

11. For better risk management and for more equitable distribution of available resources, an indicative ceiling of \$200 million in guarantee will be imposed on each participating lending institution. We will monitor the situation closely and may revise the ceiling for individual institutions in the light of operational experience.

(E)Guarantee Period

12. The guarantee period is up to a maximum of 365 days.

(F)Interest

13. The lending institutions will determine the interest for the loans they offer to SMEs in accordance with their established principles. Government will not intervene in such commercial decisions. Since the lending institutions will undertake the administrative work associated with the assessment, day-to-day management and repayment of the loan and in view of the risk sharing arrangement which will dilute their share of the collateral, we consider a spread of 3% between the interest a bank charges a successful applicant and the interest it pays to the Government for the corresponding deposit reasonable.

(G)Administration

14. The Director of Accounting Services will be responsible for the administration of the Scheme on the

part of Government and will be the Vote Controller. All payment to and repayment from the borrower will be handled by the lending institutions. There will be an agreement between Government and the participating lending institutions setting out the rights and obligations of each party and the appropriate mechanism for settling the transactions.

(H)Arrangement for Default Cases

15. On default, any amount recovered from the SME including any amount recovered through the disposal of the collateral, if any, will be shared between Government and the lending institution on a pro-rata basis according to the ratio of the amount guaranteed by Government to the size of the total loan.

(I)Participating Lending Institutions

16. All authorised institutions under the Banking Ordinance will be invited to join the Scheme. The deposit arrangement as described in paragraph 6 above, however, will not be applicable to restricted licence banks and deposit-taking companies. This is because it has been the established practice of the Government to place its deposits only with licensed banks.

Impact on the Credit Guarantee Scheme

17. In February 1998, this Committee approved a grant of \$500 million to the Hong Kong Export Credit Insurance Corporation (HKECIC) for setting up a pilot credit guarantee scheme (CGS) to provide guarantees for loans on pre-shipment expenses by SMEs in Hong Kong. The CGS is confined to pre-export financing and its beneficiaries are confined to those companies engaged in export of goods and services. The launching of the CGS has coincided with the deepening of the liquidity crunch problem, which the CGS was not meant to address. There have been varying comments on the usefulness of the CGS. Nonetheless, since the CGS is not geared towards addressing the immediate liquidity crunch problem and to avoid possible confusion on the part of SMEs and participating lending institutions alike, we believe that there is a case to merge the CGS with the new Scheme. Upon the merging of the two schemes, we will take appropriate steps to honour those guarantees already entered into by the CGS.

Review and Monitoring

18. We will put in place a mechanism to track the performance, on an aggregate basis, of participating lending institutions. We will also review the Scheme regularly taking into account the overall economic climate and liquidity situation. When the liquidity situation improves, the need for the Scheme may no longer be there.

Number of Beneficiaries

19. Assuming that applicant SMEs will each seek the maximum guarantee of \$2 million for a period of 365 days, the new Scheme would be able to support 1 250 SMEs in the first year. We will process the applications on a first-come-first-served basis. As the funds available in the Scheme for providing guarantees are of a revolving nature and not all applicants will require a guarantee up to the ceiling or for the maximum period of 365 days, the actual number of beneficiaries is likely to exceed 1 250 SMEs.

FINANCIAL IMPLICATIONS

20. Taking into account that the CGS was set up with a grant of \$500 million and that we will now merge it with the new scheme, we propose to set up the present Scheme under the Loan Fund with a commitment of \$2.5 billion. It will be a facility of a revolving nature. The HKECIC will continue to be contractually responsible for liabilities on the guarantees undertaken in its name under the CGS until the expiry of such liabilities. It will repay the \$500 million grant under the CGS, together with the interest accrued thereon, into the General Revenue Account, less any payment for administrative expenses and default cases which may arise from its outstanding liabilities under the CGS.

21. Given the nature of the Scheme, there is an inherent risk that calls may be made on the guarantee which will have to be settled by payments from the approved commitment. There is thus a possibility of the capital commitment under the Loan Fund not being recovered, in part or in whole.

22. The administration cost, which is not expected to be significant, will be absorbed by the Director of

Accounting Services.

BACKGROUND INFORMATION

23. The Chief Executive announced on 22 June 1998 that the Hong Kong Special Administrative Region Government would implement a package of special relief measures to ease Hong Kong's economic adjustment. The measures underline the commitment of the Administration to help the community in the current economic adjustment. One of the measures is to help SMEs to obtain loans from lending institutions.

24. Subsequent to the announcement of the measures, the Administration has consulted various interested parties, including the Small and Medium Enterprises Committee and the banking sector. The proposal has received their general support. We have also consulted the Legislative Council Panel on Trade and Industry on the proposed Scheme at its meeting on 22 July 1998.

Trade and Industry Bureau
July 1998

**For discussion
on 12 November 1999**

FCR(1999-2000)45

ITEM FOR FINANCE COMMITTEE

LOAN FUND

HEAD 275 - SMALL AND MEDIUM ENTERPRISES

Subhead 101 Special finance scheme for small and medium enterprises

Members are invited to raise the commitment from \$2.5 billion to \$5 billion so as to increase the number of guarantee loans under the Special Finance Scheme for Small and Medium Enterprises and to approve two refinements to the terms and conditions of the Scheme.

PROBLEM

The existing approved commitment of \$2.5 billion provided under the Special Finance Scheme for Small and Medium Enterprises (the Scheme) has been fully committed by the end of August 1999.

PROPOSAL

2. We propose -

- (a) to increase the approved commitment for the Scheme from \$2.5 billion to \$5 billion so that we can guarantee loans up to \$5 billion in total under the Scheme;
- (b) to increase the maximum amount of guarantee to be provided by individual participating lending institutions (PLI) under the Scheme from \$200 million to \$400 million; and
- (c) to cease to provide to PLIs deposits to match the amount guaranteed.

/JUSTIFICATION

JUSTIFICATION

Financing for Small and Medium Enterprises

3. The Scheme was intended to provide relief for small and medium enterprises (SMEs) in face of the severe liquidity crunch problem in 1998 which has now eased. However, despite the much improved liquidity position of the banks, many SMEs still face great difficulty in obtaining financing. We consider that the main problem is twofold: the banks and the SMEs. On the part of the banks, there is a general lack of experience/expertise in assessing SME loans. In addition, our banks tend to rely heavily on collateral and are not well disposed to vetting business proposals on their merits. On the part of SMEs, many have difficulty in preparing business plans and financial statements. This in turn makes the banks' assessment even more difficult.

4. At this early stage of economic recovery, we need to continue to be sensitive to SME's difficulties. However, we consider that the ongoing need for financing by SMEs cannot for long rely on what was introduced as a special relief measure.

Short Term Consideration

5. We have considered the option of allowing the Scheme to continue to run its natural course, that is, applications will only be processed as and when funds are returned from discharged guarantees. As the Scheme is limited by the approved commitment, the amount of funding available will shrink over time, because there will inevitably be non-performing loans and hence claims against the Scheme. In addition, as the bulk of the guarantees were approved in the past six months and the guarantee period is two years¹, the rate of guarantee discharge in the coming few months is likely to be low. The two factors combined would mean that many applications will have to be put on hold in the coming months.

6. We therefore propose to double the total amount of guarantees that can be granted under the Scheme by raising the approved commitment to \$5 billion. To date, the default rate under the Scheme is relatively low (about 2.2%). Given that the Scheme has only operated for about one year and many loans guaranteed have not yet matured, it is too early to arrive at a definitive conclusion on the future pattern of defaults. We have endeavoured, therefore, to draw reference from the experience of banks in commercial lending. We have gathered informally from

/some

¹ The Finance Committee approved, amongst other things, the increase of the maximum guarantee period from one year to two years in considering changes to the Scheme in April 1999.

some leading banks that the default rates for SMEs could range from 1.2% to 8.9%². Accepting that loans guaranteed by the Scheme may carry a higher default rate, there should still be scope to allow at least a doubling of the total guarantee ceiling without a significant risk to Government incurring expenditure over and above the \$2.5 billion already approved. This will enable more SMEs to benefit from the Scheme. Technically, however, in order to comply with the requirements under the Public Finance Ordinance concerning guarantees, an increase in the approved commitment to \$5 billion is necessary to cover the very remote possibility that all the loans that the Government has underwritten under the Scheme became non-performing.

7. We intend to keep the maximum cumulative expenditure under the Scheme to the \$2.5 billion originally approved last year. To this end, we will keep the take-up and default situation under close review. Should there be an indication that the overall default rate is increasing at an abnormal rate, for example, we will stop processing any new applications for guarantees even if the commitment ceiling has yet to be reached. More important, we will terminate the Scheme eventually (see paragraph 14 below). It should nonetheless be noted that despite all these measures, there is a possibility that the actual outlay from the Scheme would exceed \$2.5 billion. This is because all claims against the Scheme's guarantees would have to be honoured should there be loan defaults.

8. We have also reviewed the terms and conditions of the Scheme in the light of the high take-up in the past six months. We propose that the following underlying principles of the Scheme be re-affirmed -

(a) Market driven

The operation of the Scheme must be market driven. We will therefore continue to rely on the authorized lending institutions to vet the loan applications.

(b) Risk sharing

The risk of default and late payment should be shared between the lending institutions and the Scheme.

(c) Risk capping

There should be an upper limit to the total amount of loan guarantees offered by the Government under the Scheme. There should also be a ceiling for the maximum amount of guarantee each company may obtain from the Government.

/(d)

² The definitions of SMEs differ among banks.

(d) Administrative simplicity

The Scheme should be simple and easy to administer.

9. We have considered the option of revising the risk-sharing ratio between Government and the PLIs from 70:30 to 60:40 to ensure better sharing of risks. However, the increase of the Government's share to 70% was made in response to strong public demand and after all, we do not intend the Scheme to operate on a permanent basis. Thus, on balance, we consider that the present split should remain.

10. As regards other terms and conditions of the Scheme, we consider that they should remain largely unchanged. Nonetheless, we propose the following two refinements.

11. First, as a result of the increase in the ceiling of the total amount of guarantees under the Scheme, we propose to correspondingly increase the ceiling on the guarantee amount of individual PLI from \$200 million to \$400 million. The ceiling was introduced when the Scheme was launched in August 1998 as a measure to ensure better risk management and more equitable distribution of funds.

12. Secondly, under the original design of the Scheme, the Government will deposit with the licensed banks (but not restricted licensed banks and deposit-taking companies), upon the latter's request, an amount equivalent to that of the guarantee, as a measure to ease the then tight liquidity of the banking system. Since the liquidity problem of banks has much improved and the demand for deposits has remained at a very low level, we consider that this arrangement is no longer necessary. We therefore propose to cease providing deposits to back up our guarantees.

Longer Term Consideration

13. In the light of the problems faced by the banks and SMEs in processing loan proposals, what is required in the long term is therefore a change in the business culture of the banking sector as well as that of SMEs themselves. As regards the former, the Government will implement a series of market reforms and liberalization initiatives to enhance the banks' competitiveness and risk management and assessment capabilities. These reforms and initiatives should help foster changes in the banks' attitude to extending SME loans in the long run. As regards the latter, both the Government and various industrial support organisations such as the Trade Development Council and the Hong Kong

/Productivity

Productivity Council have all along been working to nurture a more professional management culture among local SMEs. We will continue and strengthen our support in this regard. We will explore various possibilities, such as new activities like mentor schemes with the participation of successful SME businessmen.

14. We have also considered carefully if there is an economic case for a general long-term financing scheme for SMEs. The conclusion is in the negative. Any general financing scheme to help SMEs on a long-term basis is unlikely to be feasible, given the large number of companies involved. It would also be at odds with our well-established free-market and prudent public finance principles. Indeed, when there are clear indications of the economy on a firm course of recovery, the rationale for special relief measures falls away. For the longer term, therefore, we intend to terminate the Scheme as soon as circumstances permit while taking into account the needs of SMEs. The exact timing will depend on a number of factors such as the default trend and SMEs' financing situation in general.

FINANCIAL IMPLICATIONS

15. In order to allow the Government to contractually underwrite \$5 billion of loans under the Scheme, we need to increase the approved commitment from \$2.5 billion to \$5 billion. In the highly unlikely event that all loan recipients under the Scheme default in repayment, we will have to pay the PLI the full amount guaranteed, up to \$5 billion.

16. In reality, the ultimate financial outlay for the Government is likely to be far lower than \$5 billion, and indeed the original commitment of \$2.5 billion, as it will amount only to the cumulative value of actual default cases. The total of such cases will depend upon a number of factors such as the general economic conditions and the duration of the Scheme as repayments received are recycled in the form of new guarantees and, therefore, the total involved in default cases will continually increase.

BACKGROUND INFORMATION

17. The Scheme was one of the economic relief measures announced in June 1998, with a view to easing the then liquidity crunch problem faced by SMEs.

18. On 31 July 1998, Finance Committee approved a commitment of \$2.5 billion for the establishment of the Scheme. On 23 April 1999, Finance Committee approved changes to the Scheme, amongst others, by raising the Government's risk-sharing factor to 70% (from the previous 50%) and extending

/the

the maximum period of guarantees from one year to two years. Since these revisions, the take-up rate for the Scheme has increased considerably. By 31 August 1999, all the funds under the Scheme had been committed. Further applications have since been put on a waiting list and the processing of the cases is reactivated on a first-come-first-served basis as and when recycled funds are available from discharged and released guarantees.

19. As of 21 October 1999, there were 7 050 successful applications, with the cumulative guarantee and the loan involved amounting to \$2,624 million and \$4,424 million respectively. The number of applications on the waiting list stood at 2 452, which would require a guarantee amount of \$662 million. A total of 29 cases have defaulted and the Government has paid out \$27 million as compensation.

Trade and Industry Bureau
November 1999

香港特別行政區政府
工商及科技局
工商科



香港金鐘道八十八號
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Our Ref : CIB CR 12/10/2

COMMERCE AND INDUSTRY BRANCH
COMMERCE, INDUSTRY AND
TECHNOLOGY BUREAU
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17 December 2002

Clerk to Public Accounts Committee
(Attn : Miss Sandy CHU)
Legislative Council Building
8 Jackson Road,
Central, Hong Kong

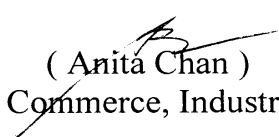
Dear **Miss Chu,**

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

Thank you for your letter of 11 December 2002 to the Secretary
for Commerce, Industry and Technology.

We would like to clarify that the Administration had used the
Small and Medium Enterprises Committee's assumption of a 25% default
rate of the guaranteed loans under the Special Finance Scheme(SFS) in
assessing the amount of money to be recouped from the SFS when we
sought the funding approval of the Finance Committee (FC) of
Legislative Council (LegCo) for the establishment of four SME funding
schemes in October and November 2001. As requested, please find the
relevant Panel and FC papers enclosed for reference.

Yours sincerely,


(Anita Chan)

for Secretary for Commerce, Industry and Technology

c.c.

Secretary for Financial Services and the Treasury)	
Director-General of Trade and Industry)	
Director of Accounting Services)	- w/o
Director of Audit)	

***Note by Clerk, PAC:** *Panel and FC papers not attached.*

LC Paper No. FC180/98-99
(These minutes have been
seen by the Administration)

Ref : CB1/F/1/2

Finance Committee of the Legislative Council

Minutes of the 16th meeting
held at the Legislative Council Chamber
on Friday, 23 April 1999, at 2:30 pm

Members present :

Hon Ronald ARCULLI, JP (Chairman)
Hon CHAN Kam-lam (Deputy Chairman)
Hon Kenneth TING Woo-shou, JP
Hon James TIEN Pei-chun, JP
Hon David CHU Yu-lin
Hon Cyd HO Sau-lan
Hon Albert HO Chun-yan
Hon Michael HO Mun-ka
Dr Hon Raymond HO Chung-tai, JP
Hon LEE Wing-tat
Hon LEE Cheuk-yan
Hon LEE Kai-ming, JP
Hon Fred LI Wah-ming
Dr Hon LUI Ming-wah, JP
Hon NG Leung-sing
Prof Hon NG Ching-fai
Hon Margaret NG
Hon MA Fung-kwok
Hon James TO Kun-sun
Hon CHEUNG Man-kwong
Hon Ambrose CHEUNG Wing-sum, JP
Hon HUI Cheung-ching
Hon Christine LOH
Hon CHAN Kwok-keung
Hon CHAN Yuen-han
Hon Bernard CHAN
Hon CHAN Wing-chan
Dr Hon LEONG Che-hung, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, JP
Hon LEUNG Yiu-chung
Hon Gary CHENG Kai-nam
Hon SIN Chung-kai
Hon Andrew WONG Wang-fat, JP
Hon WONG Yung-kan
Hon Jasper TSANG Yok-sing, JP
Hon Howard YOUNG, JP
Dr Hon YEUNG Sum
Hon YEUNG Yiu-chung
Hon LAU Kong-wah
Hon Mrs Miriam LAU Kin-yee, JP
Hon Ambrose LAU Hon-chuen, JP
Hon Emily LAU Wai-hing, JP
Hon CHOY So-yuk
Hon SZETO Wah
Hon Timothy FOK Tsun-ting, JP

Hon LAW Chi-kwong, JP
Hon TAM Yiu-chung, JP
Dr Hon TANG Siu-tong, JP

Members absent :

Hon HO Sai-chu, JP
Hon Edward HO Sing-tin, JP
Hon Martin LEE Chu-ming, SC, JP
Hon Eric LI Ka-cheung, JP
Dr Hon David LI Kwok-po, JP
Hon Mrs Selina CHOW LIANG Shuk-ye, JP
Dr Hon Philip WONG Yu-hong
Hon LAU Chin-shek, JP
Hon LAU Wong-fat, GBS, JP
Hon Andrew CHENG Kar-foo
Hon FUNG Chi-kin

Public officers attending :

Miss Denise YUE, JP
Secretary for the Treasury

Mrs Carrie LAM, JP
Deputy Secretary for the Treasury

Mr K K LAM
Principal Executive Officer (General), Finance Bureau

Mr Philip CHAN Kwan-ye
Principal Assistant Secretary for Security

Mr LEE Ming-kwai
Director of Management Services, Hong Kong Police Force

Mr P E HALLIDAY
Assistant Commissioner of Police

Mr George LEUNG
Chief Systems Manager of Hong Kong Police Force

Mr Alex MA
Assistant Director of Information Technology Services

Mr FOO Tsun-kong
Regional Commander Marine, Hong Kong Police Force

Mr LEE Wai-kuen
General Manager, Government Dockyard, Marine Department

Mr CHAN Ming-yau
Senior Maintenance Manager, Government Dockyard, Marine Department

Mr Robin IP, JP
Deputy Secretary for Constitutional Affairs

Miss Shirley YUNG
Principal Assistant Secretary for Constitutional Affairs

Mr LI Wing
Chief Electoral Officer

Mr Alex LEE
Chief Systems Manager of Information Technology Services Department

Mr Alan SIU
Principal Assistant Secretary for Information Technology and Broadcasting

Mr Y C CHENG
Deputy Director of Information Technology Services

Mr Alan DIXEY
Assistant Director of Information Technology Services

Mr Owen WONG
Senior Systems Manager of Information Technology Services Department

Miss CHEUNG Siu-hing
Deputy Secretary for Trade and Industry

Mr Francis HO, JP
Director-General of Industry

Clerk in attendance :

Miss Polly YEUNG
Assistant Secretary General 1 (Acting)

Staff in attendance :

Ms LEUNG Siu-kum
Chief Assistant Secretary (1)2

Miss Becky YU
Senior Assistant Secretary (1)3

Item No. 6 - FCR(1999-2000)5

LOAN FUND

HEAD 275 - SMALL AND MEDIUM ENTERPRISES

Subhead 101 Special finance scheme for small and medium enterprises

20. On the risk-sharing ratio, Mr CHEUNG Man-kwong noted that with the proposed change in the ratio between the Government and participating lending institutions (PLIs) from 50:50 to 70:30, the maximum loan available to small and medium enterprises (SMEs) would be reduced from \$4 to \$2.86 million. He expressed concern that according to past experience, some 11% of applicants who applied for loans exceeding \$3 million would not be able to obtain adequate loans as a result of the change. Mr CHEUNG asked if the Government would consider raising its maximum guarantee limit from \$2 to \$2.8 million so that the maximum loan available to SMEs could remain at \$4 million.

21. In response, the Director-General of Industry (DG of I) advised that the change in risk-sharing ratio should not have a significant impact on the loan size of most applicants as statistics revealed that the average loan size per applicant was around \$700,000 to \$800,000. Moreover, the actual amount of loans to be offered to SMEs was determined by PLIs in accordance with their established lending principles. As regards those applicants who applied for loans exceeding \$2.86 million, DG of I admitted that they might not be able to obtain sufficient loans if PLIs strictly adhered to the risk-sharing ratio of 70 (Government):30 (PLIs). Notwithstanding, the Administration had to strike a balance between the interest of these applicants and the need to optimize the number of beneficiaries under the Special Finance Scheme (SFS). At Ms CHOY So-yuk's request, the Administration undertook to provide information on the number of successful applications involving a loan facility of less than \$2.86 million. Admin.

22. Mr CHEUNG was not convinced of the Administration's response. He remarked that of the total commitment of \$2.5 billion under the Scheme, only \$770 million had been approved so far. As such, the Scheme should have adequate financial support to help the 11% of applicants in question to obtain sufficient loans. DG of I however pointed out that as PLIs would tend to be more lenient in considering loan applications after the change in risk-sharing ratio, the number of successful applications under SFS was expected to increase shortly. Whilst agreeing with the need to optimize the number of beneficiaries, the Chairman asked if the Administration would re-visit Mr CHEUNG's suggestion of raising the maximum guarantee limit to \$2.8 million if it was later found that no significant improvement had been made in the approval of loan applications. DG of I assured members that the Administration would keep SFS under constant review, but there was no plan for a major review for the time being. Nevertheless, the Administration would revert to the Finance Committee if circumstances warranted any revision to the Scheme.

23. As regards Ms CHOY So-yuk's concern that some PLIs might use SFS to offset other loans acquired by the beneficiaries, DG of I advised that as details of the agreement on loan facility was made between PLIs and SFS applicants, the Administration would not be in a position to know if the guarantee had been used to offset other loans. Nevertheless, the Administration would not provide the necessary guarantee if there was clear evidence indicating that this was the case. In fact, the Administration had rejected one SFS application on such grounds.

24. On default cases, DG of I advised that five default cases were registered as at 22 April 1999 and the loan involved amounted to \$7 million. PLIs would recover the loan through disposal of the collateral deposited by the relevant borrowers. If this was not feasible, the amount of loan would be shared between the Government and the PLIs concerned in accordance with the risk-sharing ratio.

25. Given the temporary nature of SFS, Mr NG Leung-sing considered that the Administration should look into other alternatives to provide assistance to SMEs on a longer term basis. DG of I took note of Mr NG's view and advised that the Administration was studying overseas experience in this respect. It would consult interested parties when more concrete proposals were available.

26. The Committee approved the proposal.

27. The Committee was adjourned at 3:45 pm.

Legislative Council Secretariat
July 1999

****Note by Clerk, PAC: Minutes of meeting on Item No. 6 only.***

香港特別行政區政府
房屋及規劃地政局局長



SECRETARY FOR HOUSING,
PLANNING AND LANDS
Government of the Hong Kong
Special Administrative Region

30 December 2002

Clerk, Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

(Attn: Mr Colin Chui)

Dear Mr Chui,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

Chapter 8: Small house grants in the New Territories

Thank you for your letter of 13 December 2002. The information requested by the Public Accounts Committee (PAC) is as follows:

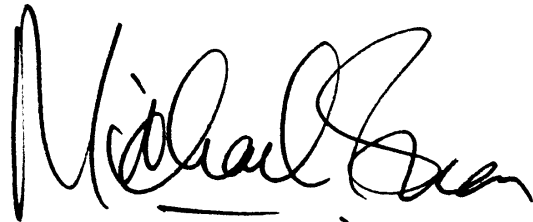
- (a) The Small House Policy review involves a number of complex and inter-related issues, such as the optimal use of land resources, and various environmental and transport infrastructural matters associated with small house developments. We intend to review the Small House Policy in a comprehensive manner and identify suitable options for resolving those problems associated with the Policy. We will consult stakeholders along the way and try to reach some tentative conclusions with them for further consultation with the community. We will do our best to expedite the review but given the complexity of the issues involved, it is unlikely that it can be completed within one year.
- (b) Subsequent to the release of the PAC Report No. 10, the Administration conducted a review of the practice of granting land to male indigenous villagers who were no longer residents in Hong Kong. The Administration reported the outcome of

this review to the PAC in the "Progress Report on Follow-up Action on PAC Report" submitted by the then Chief Secretary on 28 September 1989. A copy of the relevant correspondence and extract of the aforementioned Progress Report is attached (at Annex) for PAC's reference.

The Administration then was of the view that the Small House Policy did not exclude male indigenous villagers who resided overseas from applying for small house grants. The Administration also took the view that if the overseas indigenous villager did not intend to return shortly to reside in his house, his application would be accorded low priority in the face of other applications with more pressing housing needs. This arrangement for processing applications from overseas indigenous villagers has remain unchanged.

- (c) As indicated in paragraph 1(a) above, our intention is to review the Small House Policy in a comprehensive manner. The issue mentioned in paragraph 1(b) above will be included in the review.
- (d) Our present review will encompass the question of whether the various arrangements for land grant applications under the Small House Policy is one of the lawful traditional rights and interests of the indigenous inhabitants of the New Territories which are protected by the Hong Kong Special Administrative Region under Article 40 of the Basic Law.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Michael M. Y. Suen". The signature is fluid and cursive, with a horizontal line underlining the name.

(Michael M. Y. SUEN)
Secretary for Housing, Planning and Lands

c.c.

Secretary for Financial Services and the Treasury
Permanent Secretary for Housing, Planning and Lands
(Planning and Lands)
Director of Lands
Director of Audit

***Note by Clerk, PAC:** *Annex not attached.*

香港特別行政區政府
房屋及規劃地政局局長



SECRETARY FOR HOUSING,
PLANNING AND LANDS
Government of the Hong Kong
Special Administrative Region

29 January 2003

Clerk, Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong
(Attn: Mr Colin Chui)

Dear Mr Chui,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

Chapter 8: Small house grants in the New Territories

Thank you for your letter of 23 January 2003.

I have already set out my position clearly at the Public Accounts Committee (PAC)'s public hearing on 9 December 2002 followed by my letter of 30 December 2002 to the PAC. I stand by what I said at the public hearing that it is my intention to pursue within the tenure of my office the review of the Small House Policy and related issues in a comprehensive manner, and that I hope to resolve the associated problems once and for all within that time scale.

Paragraph (a) of my letter outlines the practical first steps which I intend to take in order to give effect to my intention. I have also given my assessment that this phase of the work is unlikely to be completed within one year.

Yours sincerely,

(Michael M. Y. SUEN)

Secretary for Housing, Planning and Lands

c.c.

Secretary for Financial Services and the Treasury

Permanent Secretary for Housing, Planning and Lands
(Planning and Lands)

Director of Lands

Director of Audit



地政惠民 廿載耕耘
Twenty Years of Quality Service



地政總署
LANDS DEPARTMENT

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本署檔號 Our Ref.: LDC/FIN/5 XVII
來函檔號 Your Ref. CB(3)/PAC/R39

我們矢志努力不懈，提供盡善盡美的土地行政服務。
We strive to achieve excellence in land administration.

香港北角渣華道三三三號北角政府合署二十樓
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lands_dept@landsd.gov.hk

Urgent By Fax & By Post

17 December 2002

Clerk
Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road, Central
Hong Kong
(Attn : Mr. Colin CHUI)
[Fax: 2537 1204]

Dear Sir,

**The Director of Audit's Report on the
Results of value for money audits (Report No. 39)**

Chapter 8: Small house grants in the New Territories

With reference to your letter of 9 December, 2002, the information requested by the Public Accounts Committee (PAC) is as follows:-

- (a) *whether Heung Yee Kuk had been consulted on the three-year moratorium on removal of the restriction on alienation for small house grants under the village expansion area schemes which was introduced by the Lands Department after the 1987 audit review (paragraph 2.7 of the Audit Report refers)*

Yes, Heung Yee Kuk (HYK) had been consulted on the issue. At the 7th Meeting of the Small House Policy Working Group held on 1 October 1987,

HYK representatives supported the imposition of a 3-year moratorium on removal of restriction on alienation for small house grants under the village expansion area schemes.

- (b) *the moratorium period in the moratorium clause which is proposed to be included in the conditions of small house building licences, land exchange and private treaty grants not under the village expansion area schemes (paragraph 2.24(a) of the Audit Report refers)*

At the liaison meeting between the then Secretary for Planning and Lands and HYK in January 2002, a moratorium period of 5 years from the date of issuing the certificate of compliance was proposed for all small house grants i.e. those approved under Free Building Licences, Land Exchange and Private Treaty Grants including those not granted within village expansion areas. The proposed period is considered long enough to achieve the intended effect of preventing potential abuse of the small house applications. The proposed measure is being discussed by the Working Group on Prevention of Abuses of Small House Policy which comprises representatives of the Lands Department and HYK.

- (c) *regarding the statistics on removal of restriction on alienation from 1997-98 to 2001-02 in Table 2 of the Audit Report, statistics for 2002-03 as at the present date*

Additional statistics are provided below:-

<u>Period covered</u>	<u>Certificate of Compliance issued</u> (No.)	<u>Approved cases of removal of restriction on alienation</u> (No.)	<u>Premium Collected</u> (\$ million)
Apr 2002 - Nov 2002	575	275 (this figure includes cases where certificates of compliance were issued prior to April 2002)	156

- (d) *as the Law Society had informed the Lands Department that it was conducting an investigation into the matter of whether the solicitors in the case mentioned in paragraph 2.13 had acted with any impropriety in preparing the conveyancing legal documents (paragraph 2.17 of the Audit Report refers), whether the Lands Department will follow up the matter with the Law Society; if so, please provide PAC with the outcome of the Law Society's investigation as soon as it is available*

The Law Society informed the Lands Department (Lands D) in November 2001 (in response to a follow up letter from Lands D regarding the concerns raised in July 2001 with the Law Society) that an investigation by the Conduct Section of the Law Society was underway and that it was considering whether to recommend the issue of a general notification to the Society's members. This was in response to a suggestion from Lands D to the Law Society that it consider issuing a general notification to its members as to how to conduct themselves if instructed to prepare Declarations of Trust and other documents related to the so-called "development schemes".

Following enquiry from PAC on 9 December 2002, Lands D requested an update from the Law Society. The Law Society has advised that it will not be able to disclose information relating to the investigation by its Conduct Section as the Personal Data Privacy Ordinance precludes disclosure of such information to third parties and of information on any resulting disciplinary prosecutions (the proceedings for which are, by law, held in camera). On the issuing of a general notification, the Society has now requested Lands D to identify how Lands D envisages that the legal profession might address the problem of the sale of small house rights. Lands D will render the assistance requested by the Law Society.

- (e) ***how the New Territories District Land Offices (NTDLOs) were informed of the inclusion of an additional clause in the villager's declaration form for small house grant application and the disciplinary action, if any, against the NTDLOs of Tsuen Wan and Tuen Mun for using the old declaration forms which did not contain the additional declaration (paragraphs 2.19 and 2.20 of the Audit Report refer)***

The NTDLOs were informed of the inclusion of the additional clause in the declaration form by a memo from the Lands D Headquarters setting out Land Administration Office Instruction Amendment No. 7/2001. This is the established procedure for issuing guidelines and instructions and NTDLO staff are required to observe the instructions promptly. The additional clause is applicable to applications involving private land. A copy of the new declaration form is at Appendix for PAC's reference.

In the DLO/Tsuen Wan (DLO/TW), since the introduction of the additional clause, 24 applications for small house were received in old declaration forms. All the cases involved government land only. As the additional clause in the new form applies to private land only, there is no material difference between using the old form and the new form in these cases. DLO/TW upon receipt of Audit's enquiry had immediately withdrawn the old forms. DLO/TW also reminded officers handling small house applications to pay special attention to the declaration form submitted by the applicants to ensure that the new form would be used.

In the DLO/Tuen Mun (DLO/TM), 14 applicants had submitted their applications in old declaration forms and all of them involved private land. As 12 of them have not yet been interviewed, they will be required to declare on the new form upon interview. The other two applicants had been interviewed and declared using the old form. DLO/TM will make arrangement with the two applicants for a new declaration. DLO/TM had also instructed case officers to examine all small house applications in hand to ensure the new declaration form is used.

Lands D considered that the nature and potential consequences of the oversight were not such that disciplinary action was warranted. A reminder has been issued to all NT District Lands Officers personally that they should take steps to ensure that prompt action is taken upon receipt of such instructions from Lands D Headquarters.

(f) a detailed response to the Audit's recommendations in paragraph 3.13 of the Audit Report

D of Audit's recommendation in para. 3.13(a)(i), (iii), (iv) and (v) are very similar and will be consolidated and incorporated into a new procedure for indigenous villager (IV) status checking which is now being formulated by Lands Department in consultation with HYK. In this respect, HYK has counter-proposed the waiving of the Village Representatives (VR) and Rural Committee (RC) Chairmen/Vice-Chairmen's statutory declaration on the applicant's I.V. status. Lands D has responded to HYK that if the applicant could not obtain VR or RC Chairman's declaration on his I.V. status, we would conduct a thorough checking on his I.V. status including the checking of family tree/clan's book, ownership of private lots in the New Territories dated-back to the Block Government Lease, inscriptions appeared in Chi Tong and on ancestral graves, etc. These checks will take time and lengthen the processing period for small house applications.

To meet D of Audit's recommendation in para. 3.13(a)(ii), Lands D will stipulate the requirement of checking birth certificates in the LAOI.

Regarding para. 3.13(a)(vi), the type of information that may be obtained from District Offices of the Home Affairs Department (HAD) are those on TSO/TONG properties and this would be useful in those cases where the applicants cannot provide ownership of a Block Government Lease lot except a TSO/TONG property. Lands D is discussing with HAD the procedures for the provision of such information and will finalize them in the LAOI as soon as possible.

Regarding para. 3.13(b), LACO has advised that the statement in the existing declaration that 'I understand that if I make false or incomplete declarations, I may render myself liable to prosecution by the Government of the HKSAR' already has a deterrent effect. However, to meet D of Audit's recommendation, Lands D will insert in the application form a warning note as follows:-

"Note : Under Section 36(a) of the Crimes Ordinance, Cap. 200, any person who knowingly and willfully makes a statement false in material particular in a statutory declaration shall be guilty of an offence and shall be liable on conviction upon indictment to imprisonment for 2 years and to a fine."

Yours sincerely,

A handwritten signature in black ink, appearing to read 'P. Lau', with a stylized flourish at the end.

(Patrick Lau)
Director of Lands

c.c. Secretary for Housing, Planning and Lands
Secretary for Financial Services and the Treasury
Director of Audit

***Note by Clerk, PAC: Appendix not attached.**



新 界 鄉 議 局
HEUNG YEE KUK NEW TERRITORIES

九 龍 塘 金 巴 倫 道 四 十 七 號
 47, CUMBERLAND ROAD, KOWLOON TONG,
 KOWLOON, HONG KONG.
 TEL : (852) 2336 1151-2, (852) 2338 8818, (852) 2336 8659
 FAX : (852) 2338 3125

Your Ref:CB(3)/PAC/R39

The Chairman

Public Accounts Committee

c/o The Legislative Council

Government of the Hong Kong Special Administrative Region

Dear Sirs,

Chapter 8:Small house grants in New territories

Our Kuk is aware that your Committee would like to know the views of our Kuk on the Government's proposal to include a moratorium clause on the removal of restriction on alienation on small house building licenses... etc.

Our Kuk understands that the Government's said proposal was made as a result of certain comments made in three High Court cases on the specific issue of the making of alleged false declaration by an indigenous villager in the application for a building license under the Small House Policy to the effect that the indigenous villager declares that he is the owner of the subject lot when in fact the beneficial ownership of the said lot belongs to the developer.

Our Kuk is of the view that these cases are in fact independent and isolated cases and as such they should be dealt with by the Administration under the existing law. The interest that is being enjoyed by the indigenous villagers pursuant to the grant of small houses under the Small House Policy is in fact one of the lawful traditional rights and interests of the indigenous inhabitants in the New Territories protected by the Article 40 of the Basic Law and the same had been duly confirmed by the Court of Final Appeal. Accordingly, Our Kuk considers that it would be



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HEUNG YEE KUK NEW TERRITORIES

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FAX : (852) 2338 3125

manifestly inappropriate for the Government to use moratorium as a “cut-off” method to attempt to solve the problem.

Our Kuk would strongly object to any proposal that purports to vary the existing Small House Policy on the ground that the same would seriously contravene Article 40 of the Basic Law.

Our Kuk would inform you that a Working Group has already been set up between the Government and the Kuk to discuss the issue relating to the prevention of abuse of the Policy. The Working Group has held its first meeting on 28th November 2002 and that a second meeting will be held sometime in mid January 2003 for further discussion and study into the matter.

Yours faithfully,



(The Secretary)

for Chairman of Heung Yee Kuk



地政惠民 廿載耕耘
Twenty Years of Quality Service



地政總署
LANDS DEPARTMENT

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來函檔號 Your Ref. CB(3)/PAC/R39

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We strive to achieve excellence in land administration.

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Urgent By Fax & By Post

6 January 2003

Clerk
Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road, Central
Hong Kong
(Attn: Mr. Colin CHUI)
[Fax: 2537 1204]

Dear Mr Chui,

**The Director of Audit's Report on the
Results of value for money audits (Report No. 39)**

Chapter 8: Small house grants in the New Territories.

With reference to your letter of 23 December 2002, the information requested by the Public Accounts Committee (PAC) is as follows:-

- (a) relevant extract of the minutes of the 7th Meeting of the Small House Policy Working Group held on 1.10.1987 relating to the imposition of a 3-year moratorium on the removal of the non-assignment clauses in the small house grants under the village expansion area (VEA) scheme is enclosed at Annex for reference.
- (b) when this issue was raised by the Administration at its liaison meeting held on 10.1.2002 with Heung Yee Kuk (HYK), the Kuk's comments were similar to those made in their letter of 23.12.2002

to the PAC. They considered that Government should only take action on the three court cases; and objected to further restrictions on the assignment of small houses. At that time HYK did not wish to discuss the issue further without details of the three court cases involving malpractices in the assignment of small house developments and statistics on abuses. Subsequently, copies of the court judgements were provided to HYK and the matter will be further discussed at the next Lands Department and HYK Working Group Meeting to be held later this month. We would not be able to give detailed comments on HYK's views expressed in its letter of 23.12.2002 to the PAC until after the meeting.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'P. Lau', with a long horizontal flourish extending to the right.

(Patrick LAU)
Director of Lands

**Note by Clerk, PAC: Annex not attached.*



教育署
Education Department

本署檔號 Our ref: EMB(I)/ADM/55/2
來函檔號 Your ref:
電話 Tel. No.: 2892 6665
圖文傳真 Fax No.:

29 January 2003

Ms Miranda HON
Clerk to Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Ms HON,

**The Director of Audit's Report on the
Results of Value for Money Audits (Report No. 39)**

**Chapter 9: Primary Education –
Planning and Provision of Primary School Places**

Thank you for your letter of 24 January on the above. The information requested by the Public Accounts Committee is as follows –

- (a) Apart from the nine school projects in the seven districts projected to have excess supply of primary school places in both 2007 and 2010 based on the latest population projection, we have decided to suspend another five school projects due to various reasons, e.g. high site formation costs and technical constraints of the school sites concerned.

By-district distribution of the 14 suspended projects is at Annex A.

教育統籌局與教育署已於二零零三年一月一日合併為新的教育統籌局。為免浪費，我們繼續使用舊文具存貨。

We are the new Education and Manpower Bureau formed by the merger of the old Bureau and the Education Department. To minimize waste, we are using our old stationery while stock lasts.



- (b) On the one hand, suspension of the projects mentioned in (a) above will achieve savings. On the other hand, we will launch a rolling programme from the next school year to reprovision/ redevelop schools which are substantially below present-day standards. The programme will require additional resources. The number of reprovisioning/ redevelopment projects to be carried out each year will depend on the availability of both funding and land resources. We estimate that about 10 schools will benefit from the first batch of the programme.
- (c) (i) This Bureau has not imposed any specific restrictions on the conversion of vacant classrooms. However, in September 1999, we issued to all aided schools an Administrative Circular, stipulating the guidelines that schools should follow if they wish to make any changes to the use of rooms (including vacant classrooms) in their schools.

In general, schools should take into account the following considerations –

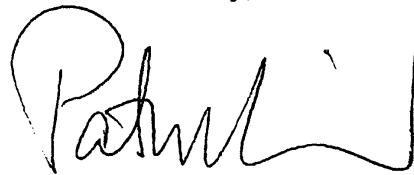
- ❖ Whether structural conversion is involved; and if so, whether such conversion complies with stipulated requirements overseen by various Government departments;
- ❖ Whether the change of room use is hazardous to the health and safety of pupils and staff;
- ❖ Whether the quality of teaching and learning is affected; and
- ❖ Whether additional recurrent and/or non-recurrent subsidies from Government are involved.

A copy of the Administrative Circular is at Annex B.

- (ii) As above-said, we have promulgated a set of guidelines on the change of room use (including vacant classrooms) in schools with a view to facilitating more flexible and better use of available resources. Depending on the specific circumstances of schools, we have also carried out works for conversion of vacant classrooms in schools into alternative uses under the School Improvement Programme (SIP) for the benefits of teaching and learning. Examples of schools having undergone such works are Schools I and K referred to in the Director of Audit's report.

This Bureau will continue to closely monitor the room use situation in schools and liaise with schools on ways to improve the utilization of vacant classrooms, as appropriate and necessary.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Patrick LI', enclosed within a large, loopy circular flourish.

(Patrick LI)

for Secretary for Education and Manpower

c.c.

Director of Audit (Attn: Mr David M T LEUNG) 2583 9063

**Note by Clerk, PAC: Annex B not attached.*

By-district Distribution of 14 Suspended School Projects

District	Number of suspended projects
Eastern	3
Central and Western	2
Wan Chai	1
Yau Tsim Mong	1
Kowloon City	2
Tai Po	1
Tuen Mun	2
Tsuen Wan	2
<i>Total</i>	<i>14</i>



教育署
Education Department

本署檔號 Our ref: ED(PRD)077/01 III
來函檔號 Your ref:
電話 Tel. No.: 2892 6683
圖文傳真 Fax No.: 2574 1128

Education Department,
Room 1608, 16/F Wu Chung House,
213 Queen's Road East,
Wanchai,
Hong Kong.

31 December 2002

Ms. Miranda HON,
Clerk to Public Accounts Committee,
Legislative Council,
Legislative Council Building,
8 Jackson Road,
Central,
Hong Kong.

Dear Ms. HON,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 9: Primary education –
Planning and provision of primary school places**

Thank you for your letter of 14 December 2002. I append at Attachment the information as requested. If you have any enquiries, or require further information, please contact me again, or my colleague, Mr K S Lee, on 2892 6621.

Yours sincerely

(H F LEE)

Director of Education

c.c. Secretary for Education and Manpower
Permanent Secretary for Education and Manpower
Secretary for Financial Services and the Treasury
Director of Audit



**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 9: Primary education –
Planning and provision of primary school places**

(Further information)

On (a):

- According to our records in the past 5 years, there were only 15 complaints on false address and only 3 of them were substantiated after investigation. After careful consideration, the Education Department does not intend to take legal action against this minority group of dishonest parents for the time being as this will complicate the Primary One Admission procedure and cause inconvenience to the majority of the parents. The Education Department believes that, in the long run, raising the quality of education provided by all schools would be more basic in minimizing the luring factor for the use of false address.

On (b):

- The Education Department will keep close watch of the situation on the use of false address in the Primary One Admission exercise and continue to explore ways of further strengthening the effectiveness of the existing system. As the situation of using false address is not serious, we consider that there is no urgent need of taking tougher measures against dishonest parents at the present stage.

On (c)(i):

- Subject to regular review of a number of constraints (e.g. population changes), we will work towards a tentative target of full implementation of whole-day primary schooling by the commencement of the 2007/08 school year. To this end, the Education Department is planning to construct a total of 19 new primary schools from 2003 to 2007 in the four districts mentioned in the question in the light of the latest population forecast. The Audit Commission has taken into account 12 of these new primary schools in its projected supply of primary school places. Of the remaining 7 new primary schools, 3 of them are located in the North District, 2 in Shum Shui Po, 1 in Kwai Tsing and another 1 in Kwun Tong.

On (c)(ii):

- The Education Department updates the school building programme from time to time to ensure that where there is a projected shortfall of school places, new schools will be developed to meet the shortfall. As explained in (i) above, we are planning to construct sufficient new primary schools to meet the projected demand for additional primary school places in the above four districts. On the other hand, where a decline in primary student population is projected in subsequent reviews, we will seek to restore the balance of demand and supply by stepping up our efforts to phase out substandard or ineffective schools.



教育署
Education Department

本署檔號 Our ref: ED(PRD)077/01 III
來函檔號 Your ref:
電話 Tel. No.: 2892 6683
圖文傳真 Fax No.: 2574 1128

Education Department,
Room 1608, 16/F Wu Chung House,
213 Queen's Road East,
Wanchai,
Hong Kong.

6 December 2002

Ms. Miranda HON,
Clerk to Public Accounts Committee,
Legislative Council,
Legislative Council Building,
8 Jackson Road,
Central,
Hong Kong.

Dear Ms. HON,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 9: Primary education –
Planning and provision of primary school places**

Thank you for your letter of 5 December 2002, and I wish to provide the requested information in the Attachment. If you have any enquiries, or need further information, please contact me again, or my colleague, Mr K S Lee, on 2892 6621.

Yours sincerely


(H F LEE)

Director of Education



c.c. Secretary for Education and Manpower

Permanent Secretary for Education and Manpower

Secretary for Financial Services and the Treasury

(Fax No. : 2147 5239)

Director of Audit (Fax No. : 2583 9063)

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 9: Primary education –
Planning and provision of primary school places**

(Further information)

On a): figures concerning the Primary One Admission (POA)

- The analysis, for the last POA cycle on a school basis, is compiled at Annex 1. As for the information of the current cycle, the registration of the successful applicants for the Discretionary Places is still in progress. While some of the successful applicants might not turn up for registration, the confirmed figures will only be available when all schools will return the confirmation list to the Education Department later this month. Hence, the figures are not yet available at this stage.

On b): other statistics on the demand and supply of public sector primary school places

- *On the demand* for school places, we do not have other projection figures. Actually, the figures as indicated at Table 1 in paragraph 2.6 are provided by this Department.
- *On the supply* of school places, Audit has used the information of existing schools and new schools in the School Building Programme (SBP) in the calculation. However, as some projects might be suspended at a later stage for various reasons, and some new projects may be injected at a later date before 2010, it would be more realistic to include the approved projects only.
- By including only the approved projects in the SBP (as at June 2002), a new set of demand and supply of primary school places in 2010 is compiled at Annex 2.

On c): allocation of Primary One school places.

- Details of the POA mechanism are narrated at Annex 3.

On d): closing of a primary school

- The main factors that trigger the consideration of closing an aided primary school include:

- the supply and demand of primary school places of a district and school net;
- the enrolment and class structure of a school;
- the performance of a school in terms of management and organization, learning and teaching, student attainments, etc.;
- the transportation and future development of an area; and
- the operating costs.

On e): number of primary schools to be reduced

- As far as new primary schools are concerned, ED has already suspended nine school projects in the districts which are projected to have excessive supply of primary school places in both 2007 and 2010 based on the latest population projection.
- We are considering whether another 13 projects which are not justified by demand are needed for the whole-day conversion of popular bi-sessional schools.
- For existing schools, instead of considering the demand alone, reduction in the number of aided primary schools would be subject to a number of factors as listed under d) above.

On f): number of schools to be reduced as based on our statistics at b) above

- As we do not have further statistics on the demand, the situation as reported at e) above will continue to be applicable.

On g): new primary schools in districts with projected shortfall

- New primary schools will be constructed in districts with projected shortfall, if the demand is confirmed at a later stage before 2010. ED will regularly update the projected demand and supply of primary school places. Where shortfall of places is identified in a district, we will plan and construct adequate number of new primary schools in the district to meet the shortfall.

**Information On Discretionary Places
(Admission To Primary 1 in September 2002)**

Net	School	*Provisional P1 Places	Final P1 Places	DP Applicants		Successful DP Applicants	
				Own Net	Other Net	Own Net	Other Net
10	School 1	128	128	64	5	61	1
10	School 2	128	128	21	4	21	1
10	School 3	111	111	103	27	37	19
10	School 4	111	111	97	19	44	12
10	School 5	128	64	39	3	39	2
10	School 6	96	96	148	83	27	21
10	School 7	96	96	146	113	17	30
10	School 8	128	128	18	5	18	3
10	School 9	64	64	53	10	30	2
10	School 10	111	111	117	21	48	6
11	School 11	185	185	64	97	32	60
11	School 12	64	32	2	2	2	2
11	School 13	74	74	37	10	29	8
11	School 14	111	111	50	23	37	18
11	School 15	32	32	9	3	9	2
11	School 16	64	32	15	6	15	2
11	School 17	64	64	10	8	10	5
11	School 18	96	96	101	31	37	16
11	School 19	128	96	10	14	10	13
11	School 20	64	64	68	115	8	25
11	School 21	111	111	19	61	6	48
12	School 22	160	160	150	174	35	60
12	School 23	160	160	51	86	29	50
12	School 24	74	74	62	113	10	27
12	School 25	74	74	76	95	8	29
12	School 26	128	128	60	57	33	41
12	School 27	128	128	29	35	29	33
12	School 28	148	148	61	86	26	47
12	School 29	296	296	175	214	42	106
12	School 30	96	96	38	26	27	20
12	School 31	96	32	9	9	8	7
13	School 32	64	64	15	14	18	14
13	School 33	64	0	5	3	0	0
13	School 34	32	0	3	0	0	0
13	School 35	64	64	4	13	4	12
13	School 36	148	148	215	205	35	39
13	School 37	32	64	1	1	1	1
13	School 38	64	64	24	19	16	11
13	School 39	111	111	24	61	18	36
13	School 40	148	148	93	98	26	48
13	School 41	64	32	5	1	4	1
13	School 42	128	128	6	71	5	55
14	School 43	128	128	42	22	42	21
14	School 44	128	96	32	18	32	17
14	School 45	148	148	153	64	54	23
14	School 46	148	148	68	36	45	29

**Information On Discretionary Places
(Admission To Primary 1 in September 2002)**

Net	School	*Provisional P1 Places	Final P1 Places	DP Applicants		Successful DP Applicants	
				Own Net	Other Net	Own Net	Other Net
14	School 47	128	128	106	37	53	27
14	School 48	128	128	59	20	46	17
14	School 49	64	64	8	4	8	2
14	School 50	160	160	173	49	63	20
14	School 51	160	160	63	20	60	19
14	School 52	64	64	60	11	27	5
14	School 53	64	64	43	7	31	4
14	School 54	148	111	57	10	57	8
14	School 55	148	148	117	23	66	16
14	School 56	148	148	77	16	63	10
14	School 57	160	160	54	19	52	15
14	School 58	148	148	189	47	60	13
15	School 59	128	128	119	107	39	41
15	School 60	128	128	86	59	37	35
15	School 61	111	111	26	31	25	28
15	School 62	128	128	50	38	37	23
15	School 63	128	128	30	17	30	16
15	School 64	96	96	34	9	34	7
15	School 65	160	64	19	7	19	5
15	School 66	160	160	83	17	68	9
15	School 67	160	64	37	18	37	16
15	School 68	185	185	197	49	72	19
15	School 69	160	160	273	168	49	30
16	School 70	128	128	58	5	58	0
16	School 71	128	64	29	1	29	1
16	School 72	128	64	10	0	10	0
16	School 73	74	74	32	4	32	4
16	School 74	74	74	27	1	26	1
16	School 75	128	128	130	16	60	8
16	School 76	128	128	86	5	63	4
16	School 77	128	128	59	2	57	1
16	School 78	128	96	27	3	27	0
16	School 79	128	128	34	3	33	2
16	School 80	160	160	273	26	72	7
18	School 81	128	128	49	3	49	0
18	School 82	128	32	8	1	8	0
18	School 83	32	0	2	1	0	0
18	School 84	128	32	9	0	9	0
18	School 85	128	128	86	5	60	2
18	School 86	128	128	62	2	62	1
18	School 87	148	74	53	4	59	1
18	School 88	74	0	0	0	0	0
18	School 89	74	74	46	3	36	2
18	School 90	37	37	11	0	11	0
18	School 91	64	64	27	2	25	0
18	School 92	128	128	40	3	39	1

**Information On Discretionary Places
(Admission To Primary 1 in September 2002)**

Net	School	*Provisional P1 Places	Final P1 Places	DP Applicants		Successful DP Applicants	
				Own Net	Other Net	Own Net	Other Net
18	School 93	128	128	20	1	21	0
18	School 94	160	160	245	22	76	11
18	School 95	128	128	141	6	64	3
18	School 96	128	128	126	8	64	0
18	School 97	128	128	150	11	61	0
18	School 98	128	128	409	22	59	2
19	School 99	32	32	18	0	16	0
19	School 100	160	32	16	0	16	0
31	School 101	96	96	25	7	25	2
31	School 102	64	64	55	62	12	25
31	School 103	64	64	43	39	12	25
31	School 104	64	64	75	102	10	21
31	School 105	64	64	90	80	8	24
31	School 106	192	192	96	91	43	52
31	School 107	96	96	22	8	22	4
31	School 108	32	32	5	5	5	4
31	School 109	128	128	59	59	31	41
31	School 110	111	111	55	9	48	7
31	School 111	111	111	27	9	27	9
31	School 112	64	64	29	26	10	9
31	School 113	96	96	25	16	25	8
31	School 114	160	160	201	194	45	65
31	School 115	185	185	329	167	49	55
32	School 116	64	32	11	4	11	1
32	School 117	32	32	6	2	6	0
32	School 118	64	64	23	10	22	7
32	School 119	64	32	1	9	1	6
32	School 120	192	192	121	159	32	81
32	School 121	192	192	81	142	36	77
32	School 122	64	32	15	8	15	2
32	School 123	64	32	5	8	9	12
32	School 124	32	0	4	5	0	0
32	School 125	192	64	18	14	17	8
32	School 126	128	96	59	20	49	10
32	School 127	128	64	25	16	22	13
32	School 128	128	128	66	33	42	18
32	School 129	128	96	51	28	42	18
32	School 130	128	128	54	35	37	26
32	School 131	128	96	19	8	19	6
32	School 132	64	64	12	8	12	4
32	School 133	185	185	152	22	88	2
32	School 134	185	160	89	69	51	41
33	School 135	64	64	9	3	8	3
33	School 136	32	0	30	9	0	0
33	School 137	185	185	115	93	43	50
33	School 138	128	128	51	2	51	2

**Information On Discretionary Places
(Admission To Primary 1 in September 2002)**

Net	School	*Provisional P1 Places	Final P1 Places	DP Applicants		Successful DP Applicants	
				Own Net	Other Net	Own Net	Other Net
33	School 139	128	96	24	3	24	3
34	School 140	111	111	129	235	14	41
34	School 141	64	64	10	38	6	26
34	School 142	64	64	8	36	5	27
34	School 143	160	160	120	242	25	65
34	School 144	148	148	57	119	20	52
35	School 145	96	96	87	64	28	34
35	School 146	32	32	5	4	5	1
35	School 147	128	96	23	11	21	7
35	School 148	96	96	15	3	15	2
35	School 149	96	64	4	4	4	3
35	School 150	64	64	37	19	23	9
35	School 151	64	64	23	9	23	6
35	School 152	160	160	287	296	10	85
35	School 153	148	148	82	22	58	15
35	School 154	148	148	117	31	59	14
35	School 155	160	160	52	35	48	28
35	School 156	160	160	152	100	56	47
36	School 157	64	64	31	14	27	9
36	School 158	64	32	13	8	13	6
36	School 159	74	74	28	9	28	5
36	School 160	96	64	17	13	17	7
36	School 161	64	64	35	10	26	5
36	School 162	37	37	2	2	2	1
36	School 163	64	32	16	2	16	1
36	School 164	64	32	8	6	7	3
36	School 165	256	256	139	44	109	27
36	School 166	74	74	18	7	18	3
36	School 167	74	37	3	1	3	1
36	School 168	128	128	192	140	38	35
37	School 169	64	64	34	11	26	9
37	School 170	64	64	20	13	20	9
37	School 171	64	32	11	19	11	11
37	School 172	74	74	42	63	13	23
37	School 173	74	74	36	45	15	24
37	School 174	96	64	8	8	8	7
38	School 175	64	32	7	5	7	3
38	School 176	96	32	6	3	6	3
38	School 177	128	128	48	5	47	4
38	School 178	160	64	11	10	11	10
38	School 179	64	64	52	23	21	10
38	School 180	64	64	7	7	7	5
38	School 181	64	32	5	3	5	2
38	School 182	148	148	117	180	26	43
39	School 183	128	128	81	42	46	12
39	School 184	64	64	6	4	6	0

**Information On Discretionary Places
(Admission To Primary 1 in September 2002)**

Net	School	*Provisional P1 Places	Final P1 Places	DP Applicants		Successful DP Applicants	
				Own Net	Other Net	Own Net	Other Net
39	School 185	64	32	8	4	8	3
39	School 186	111	111	71	53	37	22
39	School 187	111	111	68	43	42	21
39	School 188	160	160	244	128	47	39
40	School 189	96	32	10	3	10	2
40	School 190	128	128	92	14	55	5
40	School 191	128	96	48	16	48	9
40	School 192	128	32	18	12	17	8
40	School 193	128	128	141	22	57	6
40	School 194	148	148	77	53	44	32
40	School 195	148	111	60	37	49	29
40	School 196	148	37	8	4	7	1
40	School 197	160	96	31	38	29	35
40	School 198	160	160	116	20	68	10
40	School 199	160	128	10	74	10	62
40	School 200	128	128	3	101	3	60
41	School 201	74	74	70	164	15	21
41	School 202	222	222	359	435	41	70
41	School 203	128	128	40	100	20	57
41	School 204	128	128	26	63	18	48
41	School 205	128	128	102	255	6	56
41	School 206	185	185	241	409	30	59
41	School 207	37	37	1	6	1	5
41	School 208	96	96	5	3	4	1
41	School 209	96	96	38	93	6	42
41	School 210	128	128	77	176	15	48
43	School 211	128	128	172	15	61	6
43	School 212	128	96	3	3	3	3
43	School 213	128	96	27	4	27	4
43	School 214	128	32	13	4	13	3
43	School 215	148	148	182	74	48	37
43	School 216	128	128	75	9	56	8
43	School 217	128	128	80	56	39	32
43	School 218	128	128	71	31	44	20
43	School 219	64	32	4	1	4	0
43	School 220	128	128	59	14	52	7
43	School 221	128	128	71	20	52	12
43	School 222	128	128	65	14	53	10
43	School 223	148	148	28	19	28	14
43	School 224	148	37	11	10	11	9
43	School 225	128	128	67	7	60	2
43	School 226	128	64	23	2	23	1
43	School 227	128	128	101	27	53	9
43	School 228	148	148	42	50	31	40
45	School 229	128	128	116	51	43	21
45	School 230	128	128	73	32	44	21

**Information On Discretionary Places
(Admission To Primary 1 in September 2002)**

Net	School	*Provisional P1 Places	Final P1 Places	DP Applicants		Successful DP Applicants	
				Own Net	Other Net	Own Net	Other Net
45	School 231	128	128	65	29	42	20
45	School 232	128	128	40	23	40	21
45	School 233	64	64	32	11	32	10
45	School 234	64	64	25	2	24	1
45	School 235	128	96	36	8	36	7
45	School 236	128	32	21	2	21	1
45	School 237	128	128	47	9	47	4
45	School 238	128	128	43	15	43	13
45	School 239	96	96	37	1	37	0
45	School 240	128	128	59	2	59	1
45	School 241	160	160	200	61	64	14
45	School 242	185	160	118	22	82	10
45	School 243	185	160	243	11	84	7
45	School 244	185	185	358	201	44	47
45	School 245	160	160	48	61	32	48
45	School 246	160	160	65	40	44	36
46	School 247	128	96	55	14	49	12
46	School 248	128	64	46	17	44	16
46	School 249	128	64	13	15	13	10
46	School 250	128	96	86	8	59	6
46	School 251	128	32	18	6	18	5
46	School 252	128	96	32	46	27	37
46	School 253	128	64	19	25	19	21
46	School 254	128	96	34	58	21	40
46	School 255	160	160	100	10	71	6
46	School 256	128	64	20	22	20	19
48	School 257	148	111	10	6	10	3
48	School 258	64	64	63	11	27	8
48	School 259	64	64	37	7	28	4
48	School 260	128	128	111	52	50	13
48	School 261	128	128	40	26	40	22
48	School 262	148	148	28	4	41	3
48	School 263	148	0	13	3	0	0
48	School 264	128	96	3	4	3	2
48	School 265	128	128	74	37	45	28
48	School 266	128	128	43	22	43	21
48	School 267	128	128	53	14	50	11
48	School 268	128	128	56	8	56	7
48	School 269	148	148	139	28	68	17
48	School 270	148	148	101	21	62	17
48	School 271	128	128	103	5	69	4
48	School 272	128	128	59	6	58	4
48	School 273	128	128	132	51	46	20
48	School 274	160	160	150	42	63	17
48	School 275	160	160	51	9	51	6
48	School 276	128	128	204	49	32	32

**Information On Discretionary Places
(Admission To Primary 1 in September 2002)**

Net	School	*Provisional P1 Places	Final P1 Places	DP Applicants		Successful DP Applicants	
				Own Net	Other Net	Own Net	Other Net
48	School 277	160	160	84	6	75	5
49	School 278	32	32	0	0	0	0
49	School 279	185	160	178	57	88	26
49	School 280	185	160	174	34	85	24
49	School 281	160	160	375	174	54	25
49	School 282	185	185	97	9	85	7
49	School 283	160	160	157	29	70	9
49	School 284	128	128	80	38	68	18
51	School 285	128	96	77	10	55	2
51	School 286	128	32	17	4	17	3
51	School 287	64	64	30	2	29	1
51	School 288	128	96	57	5	57	1
60	School 289	128	32	15	3	14	2
60	School 290	128	64	37	8	37	6
60	School 291	160	128	34	38	33	31
60	School 292	128	64	34	5	34	4
60	School 293	148	148	87	18	59	15
62	School 294	128	128	96	4	64	2
62	School 295	128	128	63	6	59	4
62	School 296	32	32	15	16	12	9
62	School 297	64	64	16	10	16	7
62	School 298	32	32	29	2	18	1
62	School 299	18	0	0	0	0	0
62	School 300	128	128	29	10	29	6
62	School 301	128	128	17	5	17	1
62	School 302	128	128	118	21	58	14
62	School 303	128	128	64	7	63	7
62	School 304	128	128	15	4	15	4
62	School 305	128	96	18	6	18	2
62	School 306	160	160	267	90	75	30
62	School 307	160	160	228	160	54	33
62	School 308	160	160	274	103	72	31
63	School 309	148	96	69	7	67	5
63	School 310	148	64	36	9	36	4
63	School 311	32	32	1	7	1	6
63	School 312	148	148	81	36	52	27
63	School 313	148	148	53	52	40	40
63	School 314	74	74	29	39	16	24
63	School 315	160	160	166	97	59	41
63	School 316	148	64	19	3	19	1
63	School 317	96	96	77	65	26	26
63	School 318	128	128	70	17	48	15
64	School 319	128	128	75	2	63	0
64	School 320	128	128	42	1	42	0
64	School 321	192	192	468	39	120	9
64	School 322	128	128	70	5	60	3

**Information On Discretionary Places
(Admission To Primary 1 in September 2002)**

Net	School	*Provisional P1 Places	Final P1 Places	DP Applicants		Successful DP Applicants	
				Own Net	Other Net	Own Net	Other Net
64	School 323	128	128	56	3	56	3
64	School 324	192	192	20	1	20	0
64	School 325	128	128	117	4	78	1
64	School 326	96	96	63	4	47	2
65	School 327	128	128	31	9	31	6
65	School 328	128	128	46	5	46	1
65	School 329	128	128	114	8	68	5
65	School 330	128	128	32	4	32	3
65	School 331	185	185	190	74	65	30
65	School 332	185	185	265	103	59	40
65	School 333	128	96	34	8	33	4
65	School 334	160	160	155	25	71	9
65	School 335	96	96	66	20	38	13
66	School 336	128	96	57	3	57	2
66	School 337	128	32	20	2	20	2
66	School 338	148	37	9	1	9	1
66	School 339	128	32	28	0	28	0
66	School 340	128	0	4	0	0	0
66	School 341	128	32	10	0	9	0
66	School 342	128	128	65	4	62	0
66	School 343	128	64	39	6	39	4
66	School 344	128	128	86	6	61	0
66	School 345	128	32	24	2	24	2
66	School 346	128	64	23	2	23	1
66	School 347	185	185	107	8	85	7
66	School 348	185	185	202	11	86	4
66	School 349	128	64	33	5	33	2
66	School 350	128	32	14	3	14	2
66	School 351	128	64	26	1	26	1
66	School 352	160	160	85	57	38	41
66	School 353	128	128	253	15	69	3
66	School 354	128	128	113	12	58	4
69	School 355	148	148	85	4	71	1
69	School 356	148	74	47	1	47	0
69	School 357	185	185	237	22	88	7
69	School 358	185	185	130	19	97	13
69	School 359	148	148	165	15	71	1
69	School 360	148	111	84	5	71	3
69	School 361	128	96	47	3	47	2
69	School 362	128	64	33	5	33	3
69	School 363	128	32	17	1	17	1
69	School 364	128	96	72	13	55	4
69	School 365	160	160	158	22	70	10
70	School 366	32	32	3	6	3	6
70	School 367	37	37	1	3	1	3
70	School 368	128	64	52	8	52	6

**Information On Discretionary Places
(Admission To Primary 1 in September 2002)**

Net	School	*Provisional P1 Places	Final P1 Places	DP Applicants		Successful DP Applicants	
				Own Net	Other Net	Own Net	Other Net
70	School 369	185	185	155	33	78	13
70	School 370	148	148	105	26	73	19
70	School 371	185	148	81	22	72	15
70	School 372	185	111	66	14	66	13
70	School 373	148	111	71	9	65	5
70	School 374	185	37	20	1	20	1
70	School 375	128	128	80	65	47	25
70	School 376	128	96	47	23	46	17
70	School 377	32	32	5	1	5	0
70	School 378	160	96	39	9	38	6
70	School 379	37	37	6	6	6	6
70	School 380	148	74	28	1	28	1
70	School 381	148	37	15	1	15	0
70	School 382	185	185	323	131	72	19
70	School 383	148	148	179	42	60	11
70	School 384	185	111	58	15	58	10
70	School 385	148	37	17	10	17	9
70	School 386	128	96	50	5	50	3
70	School 387	160	32	19	5	19	3
70	School 388	128	64	28	7	28	4
70	School 389	160	96	15	10	15	6
71	School 390	148	148	162	16	85	6
71	School 391	148	148	86	12	74	6
71	School 392	74	32	42	11	22	7
71	School 393	64	64	40	5	29	3
71	School 394	148	148	88	19	65	9
71	School 395	148	111	50	11	50	8
71	School 396	128	32	21	2	21	1
71	School 397	128	64	9	11	9	10
71	School 398	148	148	82	7	72	4
71	School 399	148	74	36	5	35	4
71	School 400	128	64	32	5	32	1
71	School 401	128	128	182	50	55	15
71	School 402	128	128	88	32	40	22
71	School 403	128	128	200	85	59	26
71	School 404	128	128	103	23	64	12
71	School 405	148	148	179	16	77	8
71	School 406	148	148	103	16	80	10
71	School 407	37	18	3	0	3	0
71	School 408	128	128	73	8	56	4
71	School 409	128	128	112	24	50	12
71	School 410	128	96	37	5	37	3
72	School 411	16	16	5	0	5	0
72	School 412	18	0	0	0	0	0
72	School 413	32	32	15	8	10	6
72	School 414	160	96	37	1	37	1

**Information On Discretionary Places
(Admission To Primary 1 in September 2002)**

Net	School	*Provisional P1 Places	Final P1 Places	DP Applicants		Successful DP Applicants	
				Own Net	Other Net	Own Net	Other Net
72	School 415	160	64	25	0	24	0
72	School 416	160	160	52	4	52	3
72	School 417	160	96	30	3	29	2
72	School 418	160	160	104	1	85	1
72	School 419	160	160	64	1	60	0
72	School 420	185	185	102	1	96	0
72	School 421	185	111	47	1	46	1
72	School 422	160	160	155	10	78	4
72	School 423	160	160	228	14	83	4
72	School 424	160	160	176	12	84	5
72	School 425	160	160	365	33	90	5
72	School 426	64	64	26	2	24	2
72	School 427	160	160	95	2	85	1
72	School 428	160	160	127	4	85	3
72	School 429	160	160	218	9	97	6
72	School 430	160	160	331	31	85	8
72	School 431	32	32	8	7	8	7
72	School 432	160	160	144	4	90	2
72	School 433	160	160	71	19	62	15
72	School 434	160	160	134	4	78	1
72	School 435	160	160	202	3	90	1
72	School 436	160	160	173	2	80	0
72	School 437	185	185	3	0	3	0
72	School 438	160	160	60	6	60	4
72	School 439	185	160	0	0	0	0
73	School 440	32	32	11	6	10	6
73	School 441	32	32	10	6	10	6
73	School 442	148	148	95	71	48	43
73	School 443	185	185	100	82	47	56
73	School 444	74	74	35	38	14	26
73	School 445	74	74	36	31	20	20
73	School 446	32	32	2	7	2	5
73	School 447	37	18	2	0	2	0
73	School 448	74	74	72	50	30	18
73	School 449	74	74	52	37	32	20
73	School 450	148	74	35	13	35	8
73	School 451	128	32	12	12	12	7
73	School 452	128	32	23	10	23	5
73	School 453	128	32	14	4	14	0
73	School 454	111	111	108	28	57	14
73	School 455	185	74	52	17	52	9
73	School 456	185	185	115	77	49	46
73	School 457	148	111	48	45	40	36
73	School 458	19	19	2	0	2	0
73	School 459	37	37	6	2	6	2
74	School 460	74	74	35	49	18	30

**Information On Discretionary Places
(Admission To Primary 1 in September 2002)**

Net	School	*Provisional P1 Places	Final P1 Places	DP Applicants		Successful DP Applicants	
				Own Net	Other Net	Own Net	Other Net
74	School 461	111	111	31	30	29	27
74	School 462	37	0	0	1	0	0
74	School 463	32	16	4	2	4	0
74	School 464	37	37	7	5	7	2
74	School 465	37	18	4	0	4	0
74	School 466	160	160	97	93	44	39
74	School 467	128	128	48	65	42	54
74	School 468	185	160	143	116	44	44
74	School 469	148	148	108	45	63	26
74	School 470	148	111	53	30	47	28
74	School 471	37	37	6	3	6	1
74	School 472	32	16	0	2	0	1
75	School 473	74	37	6	2	6	0
75	School 474	16	16	1	0	1	0
75	School 475	32	32	6	0	6	0
75	School 476	32	32	5	1	5	0
75	School 477	18	18	7	1	7	0
75	School 478	64	64	86	14	45	6
76	School 479	37	37	8	2	8	1
76	School 480	18	18	9	3	8	0
76	School 481	64	32	24	2	24	0
76	School 482	74	64	27	1	27	1
76	School 483	74	32	11	2	11	1
76	School 484	32	32	7	1	7	0
80	School 485	32	32	27	7	17	2
80	School 486	32	32	13	4	13	2
80	School 487	37	0	0	0	0	0
80	School 488	148	148	95	31	58	17
80	School 489	148	111	74	30	49	22
80	School 490	185	111	61	21	60	13
80	School 491	185	74	48	28	48	20
80	School 492	16	0	0	0	0	0
80	School 493	32	32	4	1	4	1
80	School 494	16	16	16	1	8	0
80	School 495	18	18	8	2	8	1
80	School 496	128	32	24	10	24	5
80	School 497	160	64	28	8	28	4
80	School 498	37	37	8	2	8	1
80	School 499	32	32	16	2	15	0
80	School 500	148	111	74	34	56	26
80	School 501	185	111	60	44	53	34
80	School 502	32	32	20	1	15	0
80	School 503	64	32	20	3	20	0
80	School 504	128	128	111	29	55	11
80	School 505	128	96	53	32	38	22
80	School 506	160	160	140	56	72	33

**Information On Discretionary Places
(Admission To Primary 1 in September 2002)**

Net	School	*Provisional P1 Places	Final P1 Places	DP Applicants		Successful DP Applicants	
				Own Net	Other Net	Own Net	Other Net
80	School 507	160	160	91	26	61	18
80	School 508	32	32	4	3	4	0
80	School 509	32	0	3	1	0	0
80	School 510	32	32	9	1	9	1
80	School 511	148	148	139	89	45	39
81	School 512	148	148	65	9	65	5
81	School 513	259	222	36	3	35	0
81	School 514	160	128	41	7	41	4
81	School 515	96	96	27	4	27	4
81	School 516	74	74	12	13	12	8
81	School 517	74	37	4	7	4	6
81	School 518	32	32	3	1	3	0
81	School 519	32	32	3	2	3	1
81	School 520	74	74	47	4	38	4
81	School 521	74	74	46	6	35	5
81	School 522	37	0	1	0	0	0
81	School 523	32	32	3	3	3	3
81	School 524	37	0	0	0	0	0
81	School 525	128	96	91	0	79	0
81	School 526	148	148	44	0	44	0
81	School 527	111	111	41	1	41	1
81	School 528	148	148	176	49	82	18
81	School 529	148	148	257	34	84	13
81	School 530	148	148	261	56	56	23
81	School 531	128	128	316	42	57	6
82	School 532	32	32	10	4	10	0
82	School 533	32	32	16	4	13	1
82	School 534	37	37	7	4	6	0
82	School 535	32	32	12	4	11	0
83	School 536	18	0	2	0	0	0
83	School 537	18	18	14	2	12	0
83	School 538	32	32	18	2	15	1
83	School 539	64	32	17	8	17	7
83	School 540	16	0	4	1	0	0
84	School 541	128	96	30	8	30	7
84	School 542	32	32	13	3	13	2
84	School 543	128	32	32	2	32	1
84	School 544	128	32	13	2	13	0
84	School 545	128	128	65	8	58	6
84	School 546	128	96	62	11	62	6
84	School 547	128	64	25	7	24	5
84	School 548	128	128	223	55	71	18
84	School 549	18	18	1	1	1	1
84	School 550	128	128	160	37	57	17
84	School 551	128	128	69	10	62	7
84	School 552	128	32	12	1	12	1

**Information On Discretionary Places
(Admission To Primary 1 in September 2002)**

Net	School	*Provisional P1 Places	Final P1 Places	DP Applicants		Successful DP Applicants	
				Own Net	Other Net	Own Net	Other Net
84	School 553	128	64	25	12	25	10
84	School 554	128	32	18	7	18	5
84	School 555	128	128	86	25	44	18
84	School 556	128	96	32	9	32	4
84	School 557	128	96	47	2	47	2
84	School 558	64	32	36	1	35	0
84	School 559	160	160	168	25	75	12
84	School 560	32	0	3	0	0	0
84	School 561	160	160	118	39	54	22
84	School 562	96	96	116	99	25	23
85	School 563	160	160	118	134	22	60
85	School 564	37	0	0	0	0	0
85	School 565	37	0	1	1	0	0
85	School 566	32	0	0	0	0	0
85	School 567	160	160	116	51	58	32
85	School 568	160	128	92	35	59	18
85	School 569	32	32	9	5	9	2
85	School 570	128	128	46	21	46	13
85	School 571	128	32	27	12	27	11
85	School 572	64	64	33	4	37	3
85	School 573	32	0	5	1	0	0
85	School 574	128	128	127	17	54	9
85	School 575	160	160	58	13	57	11
85	School 576	148	148	96	7	72	2
85	School 577	18	18	4	0	4	0
85	School 578	32	0	0	1	0	0
88	School 579	128	32	25	3	25	2
88	School 580	128	64	64	6	60	3
88	School 581	128	32	13	2	14	1
88	School 582	128	128	95	33	39	25
88	School 583	128	96	65	10	60	8
88	School 584	160	160	111	13	70	9
88	School 585	128	64	55	3	55	2
88	School 586	128	64	67	6	59	3
88	School 587	185	185	115	111	36	56
88	School 588	160	160	160	58	58	22
88	School 589	160	160	57	34	49	31
88	School 590	128	32	11	0	11	0
88	School 591	128	96	82	11	60	3
88	School 592	160	64	41	2	41	0
88	School 593	128	64	44	4	44	0
88	School 594	128	32	14	1	14	1
88	School 595	128	64	32	14	32	9
89	School 596	128	128	104	4	68	2
89	School 597	128	128	74	0	64	0
89	School 598	128	128	29	4	29	3

**Information On Discretionary Places
(Admission To Primary 1 in September 2002)**

Net	School	*Provisional P1 Places	Final P1 Places	DP Applicants		Successful DP Applicants	
				Own Net	Other Net	Own Net	Other Net
89	School 599	160	160	185	9	87	2
89	School 600	160	160	29	1	29	0
89	School 601	160	128	28	0	28	0
89	School 602	128	32	9	0	8	0
89	School 603	128	96	52	0	52	0
89	School 604	128	128	22	1	22	0
89	School 605	128	128	130	5	61	1
89	School 606	160	160	188	5	76	4
89	School 607	160	160	281	53	57	22
89	School 608	160	160	289	79	53	37
89	School 609	160	128	38	0	38	0
90	School 610	128	128	73	10	66	9
90	School 611	128	128	102	48	43	24
90	School 612	128	128	36	9	36	7
90	School 613	96	96	57	5	47	5
90	School 614	128	96	25	1	25	1
90	School 615	128	128	146	82	45	33
90	School 616	128	128	150	30	51	15
91	School 617	128	64	24	7	24	4
91	School 618	128	128	89	32	42	22
91	School 619	128	128	42	25	42	25
91	School 620	128	32	14	0	14	0
91	School 621	128	64	22	3	22	2
91	School 622	128	128	105	18	55	9
91	School 623	128	128	43	3	46	2
91	School 624	160	160	26	24	25	22
91	School 625	160	64	17	10	17	10
91	School 626	128	128	87	9	58	4
91	School 627	148	64	23	2	24	2
91	School 628	160	160	247	150	53	44
91	School 629	128	128	253	230	44	40
91	School 630	128	128	126	5	73	0
91	School 631	128	96	40	0	40	0
92	School 632	11	0	0	0	0	0
92	School 633	10	10	2	0	2	0
92	School 634	32	32	3	0	3	0
92	School 635	64	64	21	7	20	2
92	School 636	64	64	66	2	31	1
92	School 637	64	32	28	1	28	0
95	School 638	128	96	25	2	25	1
95	School 639	128	32	15	0	15	0
95	School 640	160	160	136	6	83	2
95	School 641	160	160	89	3	77	0
95	School 642	160	160	64	1	64	1
95	School 643	160	160	116	8	76	4
95	School 644	160	160	210	6	95	1

**Information On Discretionary Places
(Admission To Primary 1 in September 2002)**

Net	School	*Provisional P1 Places	Final P1 Places	DP Applicants		Successful DP Applicants	
				Own Net	Other Net	Own Net	Other Net
95	School 645	160	160	173	4	78	2
95	School 646	160	160	47	1	47	0
95	School 647	160	160	249	12	87	1
95	School 648	160	160	112	1	106	0
95	School 649	160	160	60	6	60	6
95	School 650	128	128	177	9	59	3
95	School 651	160	160	320	3	104	0
95	School 652	128	128	67	0	64	0
95	School 653	160	160	175	4	88	0
95	School 654	128	96	39	0	39	0
95	School 655	160	160	193	2	115	1
95	School 656	128	64	26	2	26	2
95	School 657	128	128	18	1	18	1
95	School 658	160	160	188	4	80	0
95	School 659	160	160	228	5	89	3
96	School 660	10	10	1	0	1	0
96	School 661	32	32	12	0	12	0
97	School 662	64	64	81	1	32	0
97	School 663	37	37	28	1	19	0
97	School 664	37	37	39	1	21	0
97	School 665	37	37	25	0	19	0
97	School 666	64	64	42	3	31	1
97	School 667	64	32	26	1	25	0
97	School 668	32	32	11	0	10	0
97	School 669	32	32	9	0	9	0
98	School 670	32	32	25	0	16	0
98	School 671	32	32	19	0	17	0
98	School 672	160	96	85	0	84	0
98	School 673	160	96	76	2	76	0
98	School 674	160	96	75	0	75	0
98	School 675	32	32	19	0	16	0
98	School 676	160	128	79	1	78	0
98	School 677	160	160	119	2	95	0
98	School 678	160	128	134	2	78	2
99	School 679	37	37	18	0	18	0
99	School 680	32	32	7	0	7	0
99	School 681	96	96	67	9	44	4

- * This is the provisional number of Primary 1 classes to be operated in the following school year, which is calculated as the number of Primary 6 classes in the current school year or the number of classrooms divided by 6 (whichever is the greater and subject to the availability of classrooms). The DP quota for each primary school is 50% of this provisional number of P1 places.

Note: Please refer to the last part of [Annex 3](#) "Criteria for operation of Primary 1 classes" for the mechanism in determining the provisional and final number of P1 classes / places.

Table 1a
Projected demand and supply of
public-sector primary school places by district in 2010

Annex 2

District	Demand (a)	Supply (b)	Excessive supply / (shortfall) (c) = (b)-(a)	Percentage of mismatch (d) = (c)÷(b)×100%
Central and Western	9,800	12,300	2,400	24%
Wan Chai	5,300	8,100	2,800	52%
Eastern	20,400	24,100	3,700	18%
Southern	10,400	10,800	400	4%
Sham Shui Po	22,900	17,100	(5,800)	(25%)
Kowloon City	21,500	23,400	1,900	9%
Wong Tai Sin	21,100	23,400	2,200	11%
Kwun Tong	35,300	28,600	(6,700)	(19%)
Yau Tsim Mong	15,500	19,000	3,500	23%
Kwai Tsing	30,000	28,200	(1,800)	(6%)
Tsuen Wan	14,900	15,100	300	2%
Tuen Mun	26,800	31,900	5,000	19%
Yuen Long	40,100	34,800	(5,400)	(13%)
North	21,000	20,700	(200)	(1%)
Tai Po	14,200	17,100	2,900	20%
Sha Tin	35,200	37,600	2,400	7%
Sai Kung	25,700	29,200	3,500	13%
Islands	9,600	8,400	(1,200)	(12%)
Total	379,700	389,600	9,900	3%
Overall excessive supply			31,000	
Shortfall			(21,100)	
Net excess			9,900	

Assumptions : (1) Classrooms in the following types of schools and other rooms/ special rooms are not included for calculating the supply of classes :

- (a) Rural Cat. B-D Schools, and (b) ESF Schools and Private Schools (except DSS Schools)
- (2) Supply of classes in new schools for meeting new demand follows the full-in pattern of class structure; and supply of classes in schools to be closed follows the phasing-out pattern of class structure.
- (3) 60% of provision in local DSS schools are included in the supply figures.
- (4) All classrooms are assumed to be utilized to operate primary classes with an average class size of 32.5.
- (5) All surplus classrooms in bi-sessional schools are assumed to be converted to operate on whole-day basis.
- (6) All bi-sessional classes are assumed to be converted to WD classes in 2007.

Sources : (1) Proposed schedule of whole-day primary schooling implementation plan from 2002 to 2008 as at August 2002, Primary Schools Section.

- (2) School Building Programme as at June 2002, Building Section (exclude projects under review).
- (3) No. of classrooms of primary schools extracted from EDIS as at August 2002.
- (4) Information on primary schools to be closed is provided by the Primary Schools Section in June 2002.
- (5) Information of Aided Schools to be turned to DSS obtained from the Planning Section in August 2002.
- (6) Information on the categorization of rural schools is provided by the School Development Division in June 2002.
- (7) Information on cross-boundary students is obtained from relevant Regional Education Offices in October 2001 and other sources.
- (8) 2001-based Projected Population Distribution by District Council district in 2001-2011 are provided by the Working Group on Population Distribution (WGPDP) in August 2002.

Notes : (1) Districts where the supply would exceed or fall short of the projected demand by more than 15% are highlighted.

- (2) Percentages are derived from unrounded figures.

Primary One Admission System

- The Primary One Admission (POA) System is primarily net-based. In accordance with broad geographical areas and the distribution of government and aided primary schools, the whole territory is divided into some 50 school nets.
- Under the POA System, there are two stages of admission, namely the "Discretionary Places Admission" stage and "Central Allocation" stage. Each stage will take up about 50% of a school's Primary 1 places.

“Discretionary Places Admission” Stage

- During the stage of "Discretionary Places Admission", parents may apply to only ONE government or aided school which may be in or outside the school net in which they reside.
- There are two categories of discretionary places admission :
 - (A) Applicants with sibling(s) studying or parent(s) working in the school.
 - This category will take up 30% of a school's P1 places.
 - All applicants of this category will be admitted by the school.
 - If applications are less than 30% of a school's P1 places, the remaining places will be allocated by the school according to a Points System.
 - If such applications exceed 30% of a school's P1 places, the shortfall will be made up by the P1 places reserved for the central allocation.
 - (B) Selection of applicants according to the “Points System”
 - Each school will reserve not less than 20% of a school's P1 places for applicants selected according to a Points System.
 - For example, applicants with parents or siblings being a graduate of the primary school, applicants having same religious affiliation as the sponsoring body which operates the primary school etc. will be awarded different points under the Points System.

“Central Allocation” Stage

- Children who have not been offered a discretionary place will be allocated places in the central allocation.
- In late February each year, parents of children requiring central allocation would be invited in writing to make school choices in early March for central allocation.
- Each primary school should earmark about 50% of its P1 places for the central allocation. 10% of these central allocation places are open to all applicants irrespective of school nets, and each applicant may choose up to three schools. The remaining 90% of the central allocation places are restricted to applicants residing in the same POA net as the schools, and each applicant may choose not more than 30 schools within the school net.
- The computer-programmed central allocation will first process the unrestricted school choices and then the restricted school choices. The allocation is primarily based on parental choices. A ‘Random Number’ will be generated by the computer for each applicant to decide the order of priority in allocating school places.

Criteria for operation of Primary 1 classes

- In early September, each school will be informed of the provisional number of Primary 1 classes to be operated for the following school year which is calculated as the number of Primary 6 classes in the current school year or the number of classrooms divided by 6 (whichever is the greater and subject to the availability of classrooms). Schools are also clearly informed that the provisional number of Primary 1 classes, based on which the notional quota of discretionary places is calculated, is only tentative and is subject to adjustment in relation to the actual demand.
- The overall number of Primary 1 classes to be operated by primary schools is primarily based on the actual demand for Primary 1 places within the school net. To decide the number of P1 classes which a primary school may operate, ED will take into consideration a number of factors, including the number of classrooms available, the optimum class structure for the school, the number of children already admitted by the school during the ‘Discretionary Places Admission’ stage and parental choices in the ‘Central Allocation’ stage.

- Based on the result of a computer analysis of the actual choices made by parents during the 'Central Allocation' stage, ED would work out the tentative number of children to be allocated to each primary school. As a matter of principle, if the number of children allocated to a particular class of a school is less than half of a normal class size, and at the same time, there are still unfilled places in the other schools of the same school net, the school may not be allowed to operate that particular class.

教育統籌局



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傳真 Faxline: 2530 3780

29 January 2003

Ms. Miranda HON,
Clerk to Public Accounts Committee,
Legislative Council,
Legislative Council Building,
8 Jackson Road, Central,
Hong Kong.

Dear Ms. HON,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 9: Primary education –
Planning and provision of primary school places**

Thank you for your letter of 11 December 2002. I append at Attachment the information (a) and (d) as requested. If you have any enquiries, or require further information, please contact me again, or my colleague, Mr K S Lee, on 2892 6621.

Yours sincerely

(Mrs Fanny LAW)

Permanent Secretary for Education and Manpower

c.c. Secretary for Education and Manpower
Secretary for Financial Services and the Treasury
Director of Audit

香港灣仔皇后大道東 213 號胡忠大廈 16 字樓
16/F, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 9: Primary education –
Planning and provision of primary school places**

(Further information)

On (a):

- For better resources management and to minimize the situation of under-enrolled classes, the criteria for operating Primary 1 classes will be tightened as from the 2003/04 school year. If the total number of students allocated to a Primary 1 class of a school is less than 23, and there are still Primary 1 places in other schools of the same school net, the school may not be allowed to operate that class.
- We have consulted the relevant primary school council and committee on the above criteria, and schools have been duly informed of the arrangement in writing in January 2003. We will inform schools of the approved number of Primary 1 classes for the 2003/04 school year in April 2003.

On (d):

- EMB's review of the future development of rural primary schools is underway. The review is expected to be completed by summer 2003.

教育統籌局



EDUCATION AND MANPOWER BUREAU

本局檔號 Our Ref.: ED(PRD)077/01 III
來函檔號 Your Ref.: CB(3)/PAC/R39

電子郵件 E-mail: embinfo@emb.gcn.gov.hk
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2 January 2003

Ms. Miranda HON,
Clerk to Public Accounts Committee,
Legislative Council,
Legislative Council Building,
8 Jackson Road, Central,
Hong Kong.

Dear Ms. HON,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 9: Primary education –
Planning and provision of primary school places**

Thank you for your letter of 24 December 2002. I append at Attachment the information as requested. If you have any enquiries, or require further information, please contact me again, or my colleague, Mr K S Lee, on 2892 6621.

Yours sincerely

(Mrs Fanny LAW)

Permanent Secretary for
Education and Manpower

c.c. Secretary for Education and Manpower
Secretary for Financial Services and the Treasury
Director of Audit

香港灣仔皇后大道東 213 號胡忠大廈 16 字樓
16/F, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 9: Primary education –
Planning and provision of primary school places**

(Further information)

On (a):

- We are still considering the details about the study on small class teaching, including its timetable and scope. We are taking into account findings from overseas studies, advice from local and non-local experts and the present local context, in working out the design of the study.

On (b):

- There have been new developments on primary school curriculum with the release of the “Learning to Learn – The Way Forward in Curriculum Development” in 2001 and the “Basic Education Curriculum Guide – Building on Strengths” in 2002 by the Curriculum Development Council. Under the new curriculum, primary schools are expected to adopt student-centred learning and teaching approaches. Activity Approach (AA) is only one of such approaches. Schools adopting AA will be allowed to maintain their existing class size for the time being. Standardization of the class size of AA and non-AA classes will only be made gradually to enable schools to cope with the changes.



教育署
Education Department

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Education Department,
Room 1608, 16/F Wu Chung House,
213 Queen's Road East,
Wanchai,
Hong Kong.

19 December 2002

Ms. Miranda HON,
Clerk to Public Accounts Committee,
Legislative Council,
Legislative Council Building,
8 Jackson Road,
Central,
Hong Kong.

Dear Ms. HON,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 9: Primary education –
Planning and provision of primary school places**

Thank you for your letter of 11 December 2002. I append at Attachments 1 to 3 the information as requested for items (b) (c) and (e) respectively in both Chinese and English. If you have any enquiries, or require further information, please contact me again, or my colleague, Mr K S Lee, on 2892 6621.

Yours sincerely

(H F LEE)

Director of Education

c.c. Secretary for Education and Manpower
Permanent Secretary for Education and Manpower
Secretary for Financial Services and the Treasury
Director of Audit

Information on item (b)			
	School I	School J	School K
item (b) (i) (copies of Public Works Subcommittee Papers are at Annex)	<ul style="list-style-type: none"> When we sought funding approval from the Legislative Council for works under the School Improvement Programme (SIP) in May 1996, six of the 11 vacant classrooms were retained with a view to alleviating the school place demand as projected on the basis of the population projection at that time. 	<ul style="list-style-type: none"> When we sought funding approval from the Legislative Council for the SIP works of these two schools in May 1997, 11 vacant classrooms in each of these two schools were retained in anticipation of the implementation of whole-day primary schooling which, as considered on the basis of the population projection at that time, might otherwise need to be provided through the building of new schools. 	
item (b) (ii)	<ul style="list-style-type: none"> The only change of circumstances is that the school has been experiencing a decline in P1 intakes since the school is located in an “aging” district. In the 2000/01 and 2001/02 school years, more New Arrival Children (NAC) have been admitted, particularly at P2 level. However, the demand of school places arising from NAC is expected to drop significantly in the 2002/03 school year. 	<ul style="list-style-type: none"> There has been a decline in the number of operating classes of this school in recent years. This is mainly due to the drop in demand for primary school places. 	<ul style="list-style-type: none"> The existence of a large number of vacant classrooms is due to: <ul style="list-style-type: none"> the decline in the school-age population in the District in the past few years; the school is situated in an aloof site and is not easily accessible.

**Note by Clerk, PAC: The Annex referred to in Attachment 1 not attached.*

	School I	School J	School K
Item (b) (iii)	<ul style="list-style-type: none"> This is a 30-year old premises. In the 2002/03 school year, this 23-classroom school operates 13 classes. With 7 classrooms having been converted for other educational uses, the actual number of vacant classrooms is 3. The changes in the uses of the 7 classrooms in question are as follows: <ul style="list-style-type: none"> Multi-media learning Computer server and conference Teaching resources IT assisted teaching (<i>involving 3 classrooms</i>) Creative learning 	<ul style="list-style-type: none"> In the 2002/03 school year, this 24-classroom school operates 12 normal classes. The school converted the remaining classrooms into special rooms. Details are as follows: <ul style="list-style-type: none"> Television room English corner Teaching-aids room Staff common room Multi-media audio-visual room Integrated education resource centre Intensive remedial teaching room (<i>involving 2 classrooms</i>) Chinese orchestra room (<i>involving 2 classrooms</i>) Resource centre Room for boy scout / brownie 	<ul style="list-style-type: none"> The school had changed most of its surplus classrooms for other uses, such as: <ul style="list-style-type: none"> Remedial teaching (<i>involving 2 classrooms</i>) Parent resources center Exhibition/display room Audio-visual room (<i>involving 2 classrooms</i>)

Information on item (c)

- We would like to clarify that at the meeting of the PAC on 9 December, the schools referred to by the Administration as having been provided with “core items” or “essential items” of SIP only were Schools I, J and K and the 24-classroom school in Lower Ngau Tau Kok Estate. The “essential items” of SIP works under Phases II and III in which works for Schools I, J and K were carried out include staff rooms, a staff common room, interview rooms, a student activity centre, a library and disabled access only.
- As for the scope of SIP works for the school in Lower Ngau Tau Kok Estate, the scope was reduced in the light of the scheduled demolition of the school in 2008/2009 under the Housing Authority’s Comprehensive Redevelopment Programme. Other than a preparation room for computer-assisted learning and a light weight canopy, the reduced scope covers solely conversion works to provide for core/ essential items including a computer-assisted learning room, a language room, a multi-purpose room, a student activity centre and two supportive rooms. The facilities to be provided would be used by the students for at least five school years.
- The costs of SIP works for Schools I, J, K, the school in Lower Ngau Tau Kok Estate and the school in Wah Fu Estate as compared to the average cost/ budget ceiling for full scope of SIP works conducted in the respective phases are –

School	SIP Phase	Estimated Cost	Average cost/ budget ceiling * for full scope of works in respective SIP phases
I	II	\$13.15 m	\$18.66 m
J	III	\$14.84 m	\$21.81 m
K		\$14.17 m	

School in Lower Ngau Tau Kok Estate	V (Final Phase)	\$6.08 m	\$32.96 m
School in Wah Fu Estate		\$19.9 m	

* We do not have any budget ceiling for projects in Phases II and III. A review of SIP was conducted in 2000 and it was decided that a budget ceiling should apply to SIP projects under Phases IV and V. Thus, instead of budget ceiling, we have only provided that average cost for Phases II and III.

Information on item (e)

The number of complaints on false address and the number of substantiated cases in the past 5 years are tabulated below:

School Year	No. of complaints received	No. of substantiated cases
2002/2003 (as at 12.2002)	1	0
2001/2002	4	0
2000/2001	4	1
1999/2000	1	0
1998/1999	4	2
1997/1998	2	0



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來函檔號 Your Ref. : CB(3)/PAC/R39

7 January 2003

Clerk
Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

(Attn: Ms Miranda HON)

Dear Ms Hon,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 9: Primary education —
Planning and provision of primary school places**

Thank you for your letter of 24th December 2002. According to Attachments 1 and 2 of the Director of Education's letter of 19th December 2002:

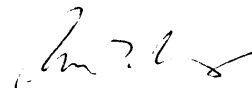
- Schools I, J and K each had eleven vacant classrooms when funding was sought for carrying out the SIP works (see item (b)(i) of Attachment 1 of the Director of Education's letter);
- Schools I, J and K were provided with "essential items" when SIP was carried out. The SIP works carried out included staff rooms, a staff common room, interview rooms, a student activity centre, a library and disabled access (see first bullet of Attachment 2 of the Director of Education's letter);
- the estimated cost of SIP works carried out in Schools I, J and K amounted to about 70% as compared to the average cost for the full scope of works (see Audit's calculation in the Appendix); and
- in order to address the problem of vacant classrooms, some classrooms in these three schools have recently been converted for other educational uses (see item (b)(iii) of Attachment 1 of the Director of Education's letter).

The crux of the matter is that there were eleven vacant classrooms each in Schools I, J and K when funding for the SIP works was sought in 1996 and 1997. In respect of the SIP works for School I, five of the eleven vacant classrooms were converted to alternative uses, six remaining vacant. However, five additional classrooms were also provided in the new Annex built under the SIP. Because of the low enrolment in the school, the total number of vacant classrooms remained at eleven after the SIP works were completed (see Table 12 of para. 4.5 of the Audit Report). I consider that the six remaining vacant classrooms could also have been converted to provide the "essential items" of the SIP, while the five new classrooms would not have been required. This would have obviated the need for building the new Annex. In respect of Schools J and K, similarly, the eleven classrooms that were vacant in each school at the time of funding approval provided significant usable floor areas which could also have been converted into various function rooms.

According to Table 12 of paragraph 4.5 of the Audit Report, there were still significant numbers of vacant classrooms in Schools I, J and K at the beginning of the 2001-02 school year (i.e. 11, 11 and 17 respectively) after the completion of the SIP works. It is worthy of note that these three schools have been experiencing difficulties to attract students. For the 2002-03 school year, the number of Primary One applications for discretionary places each school received was about ten.

In view of the above, I am of the view that the "essential items" of the SIP could have been provided to Schools I, J and K by converting the then vacant classrooms into various function rooms, instead of building additional floor areas. Had such an approach been adopted, the cost of SIP works carried out would have been reduced significantly. After reviewing the information provided by the Director of Education, I maintain the view that the need to provide additional floor areas at Schools I, J and K was questionable.

Yours sincerely,



(David M T LEUNG)
for Director of Audit

Encl.

c.c. Secretary for Education and Manpower
Permanent Secretary for Education and Manpower
Director of Education

Appendix

Costs of SIP works for Schools I, J and K as compared to the average cost for full scope of SIP works

School	Estimated cost of SIP works	Average cost for full scope of works	Percentage
(a)	(b)	(c)	(d) = (b) ÷ (c) × 100%
I	\$13.15m	\$18.66m (for SIP Phase II)	70.5%
J	\$14.84m	\$21.81m (for SIP Phase III)	68.0%
K	\$14.17m	\$21.81m (for SIP Phase III)	65.0%

Source: Attachment 2 of the Director of Education's letter



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Education Department

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24 January 2003

Ms Miranda HON
Clerk to Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Ms HON,

**The Director of Audit's Report on the
Results of Value for Money Audits (Report No. 39)**

**Chapter 9: Primary Education --
Planning and Provision of Primary School Places**

I refer to the Director of Audit's letter of 7 January to you on the above, and copied to us.

The Director of Audit's major query is that should the vacant classrooms in the three schools' old premises have been used to house the essential items provided for under the respective SIP projects, the two annexes in Schools I and K and the additional floor area in School J would be unnecessary given that subsequent enrolment of the schools does not justify the retention/ provision of new classrooms. I would like to offer our views for Members' consideration –

- (a) As explained in the then Director of Education's letter of 19 December 2002, the reason for retaining the vacant classrooms in School I (six classrooms), School J and School K (11 classrooms each) and building additional classrooms in Schools I and K (five classrooms each) under the respective SIP projects was that the above classrooms were anticipated to be required to meet the projected demand at the time when funding approval was sought in 1996 for School I and in 1997 for Schools J and K. In the cases of Schools J and K, the classroom requirement for implementation of

教育統籌局與教育署已於二零零三年一月一日合併為新的教育統籌局。為免浪費，我們繼續使用舊文具存貨。
We are the new Education and Manpower Bureau formed by the merger of the old Bureau and the Education Department. To minimize waste, we are using our old stationery while stock lasts.



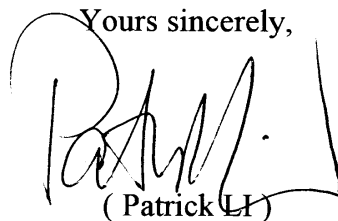
whole-day primary schooling had also been taken into account. In other words, based on the data then available, there was a need to reserve sufficient number of vacant classrooms in the three schools to meet the projected demand.

- (b) To improve the classroom teaching and learning environment, we accommodated five of the required classrooms in each of Schools I and K in the new annexes built under the respective SIP projects. For the vacant classrooms of equivalent number in the old premises, they were substandard and did not meet modern day educational needs of the students. These classrooms were therefore converted into alternative uses.

As reported in the then Director of Education's letter mentioned above, the use of most/ all of the vacant classrooms in Schools I, J and K has been changed to other teaching and learning activities in the 2001/02 school year. This is to take account of the latest enrolment situation and the latest projection of the supply and demand of primary school places.

At the risk of stating the obvious, I wish to add that population projection forms the basis for planning the provision of school places. Planners can only use the latest data available to them and it is unreasonable to assume that they can foretell the drop in demand for school places a few years down the road. Hence, consideration of the justification for certain SIP projects must be contextualised. Nevertheless, to ensure prudent use of public funds, this Bureau will continue to monitor the enrolment situation of the three schools and will closely liaise with them to make sure that available resources including their vacant classrooms are put to the best use for the benefits of teaching and learning.

Yours sincerely,



(Patrick LI)

for Secretary for Education and Manpower

c.c. Director of Audit (Attn: Mr David M T LEUNG) 2583 9063

教育統籌局



EDUCATION AND MANPOWER BUREAU

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電子郵件 E-mail: embinfo@emb.gcn.gov.hk

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29 January 2003

Clerk, Public Accounts Committee
(Attn: Mr Colin Chui)
Legislative Council
Legislative Council Building
8 Jackson Road
Hong Kong

Dear Mr Chui,

The Director of Audit's Report on the
Results of value for money audits (Report No. 39)

Chapter 11: Primary education – Delivery of effective primary education

I refer to your letter dated 27 January 2003 on the captioned subject. Please find in the attached Annex the information as requested on the progress of the survey on students' physical fitness and participation in sports activities from 2002 onwards.

Yours sincerely,

(Mrs Fanny Law)

Permanent Secretary for Education and Manpower

c.c. Secretary for Education and Manpower
Director of Audit

香港灣仔皇后大道東 213 號胡忠大廈 16 字樓
16/F, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong

The Study to Assess the Effectiveness of Education Reform measures
(Physical Education)

The project for 2002-03 school year has been contracted out to the Hong Kong Baptist University through normal tendering procedures. The cost is \$495,477.00.

2. The study comprises two parts: the fitness test and measurement and the Questionnaire.

2.1 The test items of the fitness test and measurement are as follows:

- i. Height and weight
- ii. Cardiovascular Endurance: 9-minute run/walk
- iii. Muscular Strength: Push-ups (boys)
- iv. Bent-knee push-ups (girls)
- v. Muscular Endurance: 1-minute sit-ups
- vi. Flexibility: Sit and reach
- vii. Body composition: Triceps and calf skinfold measurements

2.2 The questionnaire has been designed to collect the information on students' participation in physical activities, their exercise habits, their attitude towards PE and their development in generic skills as well as value and attitude.

3. The work plan and progress are provided as follows :

Item	Date
Preparing and planning the test items and the questionnaire	Completed in Dec 2002
Stratified random sampling was used to selected 25 participating schools. Invitation to the schools and liaise with them on the logistics.	Completed in Dec 2002
Data Collection	January to April 2003
Data processing and analysis	Will be completed by June 2003
Preparing the draft report	Will be completed by August 2003

4. The study for 2003-04 school year will be conducted in primary schools subject to availability of funds. Proper procurement regulations will be followed for commissioning the study to the tertiary institutes. The same test items (except using hand grip dynameters for measuring the muscular strength) and questionnaire will be used for the study. The study will be conducted yearly in secondary and primary schools in alternate years.



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來函檔號 YOUR REF:

3 December 2002

By Fax (2537 1204)
Miss Sandy CHU
Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Miss CHU,

**The Director of Audit's Report on the
Results of Value for Money Audits (Report No. 39)
Chapter 11 : Primary Education –
Delivery of Effective Primary Education**

Thank you for your letter dated 28 November 2002 requesting for information on the use of leisure facilities by schools. The required information is detailed below for your reference –

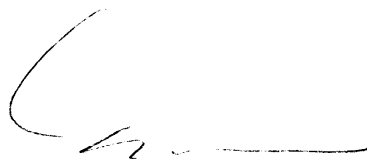
- (a) The utilization rates of LCSD's major leisure facilities by schools and their total used hours in each of the fiscal years of 2000/01 and 2001/02; the corresponding utilization rates by other users and their total used hours; as well as the unused hours in the same periods are summarized in **Annex**.
- (b) The number of school applications which have been rejected in 2000/01 and 2001/02 are 234 and 241 respectively.

- (c) LCSD adopts the same criteria in the processing of applications for use of leisure venues from special schools and other schools.

At the moment, we maintain utilization figures under the broad category of schools, including the uses by kindergartens, primary and secondary schools, as well as special schools. We are unable to separate those information on primary schools from existing available utilization statistics.

In case you require any additional information, please do not hesitate to contact Mr George NGAN, Leisure Manager (Recreation Venues) on 2601 8052 or via his e-mail gsmngan@lcsd.gov.hk.

Yours sincerely,



(Miss Olivia CHAN)

for Director of Leisure and Cultural Services

c.c. Secretary for Home Affairs
Secretary for Education and Manpower
Permanent Secretary for Education and Manpower
Director of Education
Secretary for Financial Services and the Treasury
Director of Audit

Utilization of Major LCSD's Leisure Facilities in 2000/01 & 2001/02

Facility	2000/2001													
	Hours Available (A)			Hours Used (Overall Utilization Rate) (B)			Hours used by Schools (Utilization Rate) (C)			Hours used by Other Users (Utilization Rate) (B)-(C)			Hours Unused (A)-(B)	
	P	NP	T	P	NP	T	P	NP	T	P	NP	T	P	T
Sports Centres (Arena)	1448887 (100%)	1128703 (100%)	2577590 (100%)	1028710 (71%)	507916 (45%)	1546554 (60%)	7409 (1%)	83442 (7%)	90851 (4%)	1021301 (70%)	424474 (38%)	1455703 (56%)	420177 (29%)	620787 (55%)
Sports Grounds	25198 (100%)	31539 (100%)	56737 (100%)	18899 (75%)	23970 (76%)	42553 (75%)	1173 (5%)	11135 (35%)	12308 (22%)	17726 (70%)	12835 (41%)	30245 (53%)	6299 (25%)	7569 (24%)
Artificial Turf Pitches	28217 (100%)	20692 (100%)	48909 (100%)	26168 (93%)	10627 (51%)	36794 (75%)	1234 (4%)	3569 (17%)	4803 (10%)	24934 (89%)	7058 (34%)	31991 (65%)	2049 (7%)	10065 (49%)
Natural Turf Pitches *	-	-	38173 (100%)	-	-	38173 (100%)	-	-	4450 (12%)	-	-	33723 (88%)	-	-

Facility	2001/2002													
	Hours Available (A)			Hours Used (Overall Utilization Rate) (B)			Hours used by Schools (Utilization Rate) (C)			Hours used by Other Users (Utilization Rate) (B)-(C)			Hours Unused (A)-(B)	
	P	NP	T	P	NP	T	P	NP	T	P	NP	T	P	T
Sports Centres (Arena)	1509624 (100%)	1164587 (100%)	2674211 (100%)	1117122 (74%)	570648 (49%)	1684753 (63%)	10879 (1%)	120419 (10%)	131298 (5%)	1106243 (73%)	450229 (39%)	1553455 (58%)	392502 (26%)	593939 (51%)
Sports Grounds	29581 (100%)	35464 (100%)	65044 (100%)	22777 (77%)	28017 (79%)	50734 (78%)	1357 (5%)	12679 (36%)	14036 (22%)	21420 (72%)	15338 (43%)	36698 (56%)	6804 (23%)	7447 (21%)
Artificial Turf Pitches	29736 (100%)	21237 (100%)	50973 (100%)	27299 (92%)	11370 (54%)	38669 (76%)	1314 (4%)	3554 (17%)	4868 (10%)	25985 (88%)	7816 (37%)	33801 (66%)	2437 (8%)	9867 (46%)
Natural Turf Pitches *	-	-	37332 (100%)	-	-	37332 (100%)	-	-	4740 (13%)	-	-	32592 (87%)	-	-

P- Peak hours

NP - Non-peak hours

T - Total

Remarks :

* The usage of natural turf pitches are maintained on the basis of 60 sessions/month. There is thus no applicable statistics separately for peak and non-peak hours.

教育統籌局



EDUCATION AND MANPOWER BUREAU

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來函檔號 Your Ref.: CB(3)/PAC/R39

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25 January 2003

Clerk, Public Accounts Committee
(Attn. Mr Colin CHUI)
Legislative Council
Legislative Council Building
8 Jackson Road
Hong Kong

Dear Mr Chui

**The Director of Audit's Report on the
Results of Value for Money Audits (Report No.39)
Chapter 11: Primary Education – Delivery of Effective Primary Education**

Thank you for your letter of 21 January 2003 on the caption.

At present, every school is provided with resources for remedial teaching service. In addition, we provide extra support for primary students with learning difficulties in the form of school-based Intensive Remedial Teaching Programme (IRTP) and centre-based remedial teaching service at Resource Teaching Centres (RTC) operated by the Education and Manpower Bureau. Schools with eight or more students with learning difficulties are eligible for the provision of IRTP. For schools not operating IRTP, such students can receive remedial teaching service at RTC. However, with the introduction of whole-day primary schooling, students often find it inconvenient to attend RTC after school. Some decline the service due to transport or escort problems. These students have to rely on family support and the basic remedial teaching service in school.

/To ensure more

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To ensure more cost-effective use of resources to provide timely support to students in need, we are currently reviewing the mode of remedial support services for students with learning difficulties in primary schools. The aim is to adopt a whole school approach to providing learning support to all students. This would remove the division of labour which exists between IRTP teachers and the rest of the teaching staff, and help to promote better collaboration and a more holistic approach to meeting students' needs.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Fanny Law', written in a cursive style.

(Mrs Fanny Law)

Permanent Secretary for Education and Manpower

c.c. Secretary for Education & Manpower
Director of Audit

本署檔號 Our ref: (21) in QAD/FIN/22/1 III

來函檔號 Your ref:

電話 Tel. No.: 2892 6683

圖文傳真 Fax No.: 2573 2805

Quality Assurance Division
Education Department
Room 1223, Wu Chung House
213 Queen's Road East, Wan Chai
Hong Kong

3 December 2002

Miss Miranda HON
Clerk to LegCo Public Accounts Committee
Legislative Council Building
8, Jackson Road, Central
Hong Kong

Dear Ms HON,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

Chapter 11: Primary education — Delivery of effective primary education

I refer to your letter of 28 November 2002 and provide the information requested by the Public Accounts Committee in respect of training attended by primary school teachers as follows:

- (a) The Education Department offered a total of 775 training courses and 336 seminars for primary school teachers in the 2001-02 school year. (For details, please refer to Annex). On top of that, we also conducted 281 workshops and briefings in the same year to provide primary school teachers with more opportunities to keep themselves abreast of the latest developments in education policy, school administrative arrangements, teaching techniques and methodologies;

教育署在二零零一至二零零二學年為小學教師提供了 775 個培訓課程及 336 個研討會（請參閱附表）。此外，我們亦在同年為小學教師舉辦了 281 個的工作坊和簡介會，讓他們有更多機會認識和學習最新的教育政策、學校行政安排、教學方式及教學法；

- (b) There is no record of statistical data on all the relevant training offered to primary school teachers. However, for training courses, seminars and workshops with statistical data available, teachers' attendance rate on average was 87%; and

我們並未全面進行統計，但以有統計出席的培訓課程、研討會及工作坊而言，教師的出席率平均為 87%；及

- (c) According to our record, there were 23,579 teachers serving in the local primary day schools in October 2001. As shown in the attachment, we have provided each primary school teacher with approximately an average of 42 hours in attending the training courses/seminars/workshops/briefings mentioned above. In addition, every primary school is also allowed to set aside 3 days (a total of 18 hours) on top of the 90 school holidays per school year as staff development days for teachers to take part in school-based staff development and school planning work.

In this respect, compared to the 50 hours' continuing professional development activities that all serving principals have to attend each year, we actually have already provided each primary school teacher with more opportunities and hours to attend the training courses/seminars, thus assisting them to continue their professional development.

根據紀錄，在二零零一年十月共有 23,579 名在職的日校小學教師。附表顯示，我們已經為每名小學教師平均提供大概 42 小時參與上述的培訓課程/研討會/工作坊/簡介會的機會。此外，每所小學更可在每學年的 90 天學校假期以外預留 3 天（共 18 小時）作為教師專業發展日，讓教師參與校本專業發展和校務策劃的工作。

因此，與在職校長每年須進行最少五十小時的持續專業發展活動作比較，我們其實已經為每名小學教師提供更多的機會和時間參加培訓課程/研討會，幫助他們作持續的專業發展。

Yours sincerely



Director of Education

c.c. Secretary for Education and Manpower
Permanent Secretary for Education and Manpower
Secretary for Home Affairs
Secretary for Financial Services and the Treasury
Director of Audit

Annex

Calculation of the average training hours provided to each primary school teacher is detailed below:

平均每位小學教師培訓時間計算:

	Courses 培訓課程	Seminars 研討會	Briefing 簡介會	Workshop 工作坊
No. of events 課程數目 (a)	775	336	28	253
Full capacity of each category 每類別最高容額 (b)	2,7239	6,0464	8,859	11,628
Total no. of hours 課程總時間 (c)	2,0271	1,110	84	1,440
No. of participants per event 平均每項參與人數 (d) = (b) / (a)	35	180	316	46
Average duration of each event (in hours) 平均每項課程時間 (小時) (e) = (c) / (a)	26	3	3	6
Full capacity (in hours) 總共時間 (小時) (a) x (d) x (e)	705,250	181,400	26,544	69,828

The chance of each teacher to participate (in hours)

平均每一教師的參加機會(小時)

$$= (705,250 + 181,400 + 26,544 + 69,828) / 23,579$$

$$= 41.7$$

(No. of primary teachers is 23,579 小學教師數目為 23,579)

教育統籌局



EDUCATION AND MANPOWER BUREAU

本局檔號 Our Ref.: (8) in QAD/FIN/22/1 IV
 來函檔號 Your Ref.:

電子郵件 E-mail: embinfo@emb.gcn.gov.hk
 電話 Telephone: 2892 6688
 傳真 Faxline: 2530 3780

6 January 2003

Mr Colin CHUI
 Public Accounts Committee
 Legislative Council Building
 8 Jackson Road
 Central
 Hong Kong

Dear Mr CHUI,

**The Director of Audit's Report on the
 Results of Value for Money Audits (Report No. 39)**

Chapter 11: Primary education – Delivery of effective primary education

Thank you for your letter of 31 December 2002. I attach herewith the information (in both English and Chinese) on the survey mentioned in paragraph 5.43(k) of the Audit Report. You may wish to note that the survey was conducted at the end of October 2002 and we finished compiling the data in November 2002.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Fanny Law'.

(Mrs Fanny Law)

Permanent Secretary for Education and Manpower

c.c. Director of Audit
 Secretary for Financial Services and the Treasury

香港灣仔皇后大道東 213 號胡忠大廈 16 字樓
 16/F, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong

Survey on Staff Appraisal System in Aided Schools

A survey on staff appraisal system was conducted in October 2002 for all aided schools (Note 1). The survey results are summarized below:

Teacher appraisal system

(a) With formal teacher appraisal system

Primary (%)	Secondary (%)	Special (%)	Total (%)
619 (97.0)	363 (98.6)	73 (100)	1055 (97.8)

(b) Without formal teacher appraisal system

Primary (%)	Secondary (%)	Special (%)	Total (%)
19 (3.0)	5 (1.4)	0 (0)	24 (2.2)

(c) Commonly used assessment methods

- Self-evaluation, lesson observation and/ or scrutinizing marking of exercise books (73.1%)

(d) Common features of the appraisal system

- Appraisal interview with record kept (86.8%)
- Countersigning system and/ or appeal mechanism (78.1%)
- Teachers involved in designing/ modifying the teacher appraisal system (76.3%)

Principal appraisal system

(a) With formal principal appraisal system

Primary (%)	Secondary (%)	Special (%)	Total (%)
402 (63.0)	230 (62.5)	64 (87.7)	696 (64.5)

(b) Without formal principal appraisal system

Primary (%)	Secondary (%)	Special (%)	Total (%)
236 (37.0)	138 (37.5)	9 (12.3)	383 (35.5)

(c) The school head is appraised by

- Self-evaluation only (9.6%)
- The supervisor/ school manager only (29.2%)
- The supervisor/ school manager and teachers (45.1%)

(d) Common features of the appraisal system

- With appraisal interview/ feedback (67.2%)

- Record kept for self-appraisal/ appraisal interview (67.8%)
- School head involved in designing/ modifying the principal appraisal system (65.2%)

Note 1: As civil servants, principals and teachers of all government schools are subject to a formal staff appraisal system.

Education and Manpower Bureau

January 2003

本署檔號 Our ref: (32) in QAD/FIN/22/1 III
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Quality Assurance Division
Education Department
Room 1223, Wu Chung House
213 Queen's Road East, Wan Chai
Hong Kong

13 December 2002

Ms Colin Chui
Clerk to Public Accounts Committee
Legislative Council Building
8, Jackson Road, Central
Hong Kong

Dear Ms Chui,

**The Director of Audit's Report on the
results of value for money audits (Report No.39)**

Chapter 11: Primary education – Delivery of Effective Primary Education

I refer to your letter of 6 December 2002 and provide the information requested by the Public Accounts Committee:

The percentage of administrative costs in the entire expenditure on primary schools, based on the actual expenditure on primary education for the 2001-02 financial year under Head 40-Education Department, is 14%. The breakdown is as follows:

	Government Primary Schools	Aided Primary Schools
Professional related administrative duties by school head/senior teachers	6.6%	7.3%
Non-teaching staff and/or Administration Grant/Revised Administration Grant	7.4%	6.7%

/...

我們的願景
提供優質學校教育，致力照顧個別需要，培育學生迎接人生挑戰。
Our Vision
We provide quality school education for our students, to develop their potential to the full and to prepare them for the challenges in life.

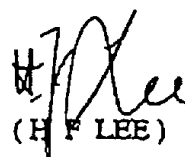
我們的使命
提供專業服務，確保資源善用，協助社會人士，發展優質教育。
Our Mission
We deliver professional services and ensure effective use of resources, We forge partnerships to promote excellence in school education.



根據二零零一至零二財政年度教育署總目40的周年津貼帳目計算，小學的行政費用約佔整體開支的百分之十四。有關的百分比，詳列如下：

	官立小學	資助小學
校長或主任級教師有關專業行政工作	6.6%	7.3%
非教學人員及/或行政津貼/修訂的行政津貼	7.4%	6.7%

Yours sincerely,



(H F LEE)

for Permanent Secretary for Education and Manpower

c.c. Secretary for Education and Manpower
Secretary for Financial Services and the Treasury
Director of Audit