

財經事務及庫務局
(庫務科)

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中區政府合署



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15 May 2004

Clerk, Public Accounts Committee
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central
Hong Kong
(Attn: Ms Dora Wai)

Dear Ms Wai,

**The Director of Audit's Report on the
results of value for money audits (Report No. 42)**

Chapter 3: Harbour Area Treatment Scheme (HATS) Stage I

Thank you for your letter of 10 May 2004.

In response to your query in paragraph 2(a) of your letter, I would like to first explain the purpose of introducing the administrative cap arrangement as set out in paragraph 4.54 of Chapter 3 of Audit Report No. 42 before assessing its effect on improving the financial control over and monitoring of works projects.

Each year, the Administration has to make due allowance for the outstanding commitments of all Category A projects (i.e. the total Approved Project Estimates (APE) minus the actual expenditure to date) before earmarking resources for Category B and other new projects. These outstanding commitments would be inflated if the project estimates were not suitably adjusted over time taking into account actual works progress, and any savings from reduction in scope/change in design/lower tender price etc. In the light of this, we have introduced the administrative cap arrangement since May 2002 to prevent internal resources allocated to Category A projects from being locked up unnecessarily.

Under the administrative cap arrangement, we would administratively adjust downwards the capital funding allocated to the projects as approved by the Finance Committee i.e. the APE, taking into account the lower-than-estimated outturn tender price, the actual works progress and planning development in the course of the annual resources allocation exercise. This lower spending limit would then become the administrative cap on the project expenditure. While this arrangement will help release internal resources for allocation to other worthwhile projects, it will not obviate the need to seek necessary Finance Committee approval for an increase in the APE. Since its introduction, the administrative cap arrangement has been duly observed by works departments.

With the administrative cap arrangement in place, the works departments have to apply to Treasury Branch for the lifting of the administrative cap to cover any subsequent increase in forecast expenditure even when the overall APE has not been exceeded. In doing so, works departments would need to account for the changes in the latest forecast expenditure as against the administrative cap. Through this process, any surplus fund in the APE used to cover an increase in forecast expenditure can be more clearly identified. We are thus of the view that this measure would enhance the transparency in the implementation of the works projects and help track down the changes and the reasons for such changes in the project estimates. As recommended by the Audit Report in paragraph 4.52(b), we have already required all works departments to set out in their submissions to Finance Committee for an increase in APE information on the deployment of surplus funds under the APE to cover any cost increase.

As regards the information required in paragraph 2(b) of your letter, in 1993 the then Finance Branch announced a simplified procedure whereby relevant departments could make a request for reduction in APE by memorandum to the then Secretary for the Treasury containing the details of the project and a concise explanation as to why the reduction is proposed if there was no change in the scope of a project. The relevant memo is attached for your reference. Drainage Services Department (DSD) subsequently included the guideline announced by the then Finance Branch in DSD Technical Circular No. 5/93. This guideline was in force during the period of Contracts C, D, and E under the HATS Stage I works, i.e. from 1997 to 2000. While the procedure promulgated then did not specifically require the works departments to reduce the APE when the awarded contract sum of a contract under a works project is lower than the contract estimate included in the APE, as a general financial management and control principle, works departments should put forward realistic estimates and review the project estimates in the light of actual progress so as not to lock up valuable resources. Under this principle, works departments would judge when the APE of a project should be reduced taking into account all relevant considerations including the outturn tender price. We therefore expected that DSD had followed the simplified procedure as announced in 1993 when it came to the conclusion that there was no need to reduce the APE to reflect the lower tender prices. Seen in this light, we do not consider that DSD had breached the simplified procedure announced by the then Finance Branch and promulgated in the DSD's Technical Circular.

I hope the above would help clarify your questions. Should you have further questions, please do not hesitate to contact me.

Yours sincerely,



(Miss Amy Tse)
for Secretary for Financial Services
and the Treasury

c.c. Secretary for the Environment, Transport and Works
Director of Drainage Services
Director of Audit
Administrative Assistant to Secretary for Financial
Services and the Treasury

MEMO

From Secretary for the Treasury
 Ref. (31) In FIN P6/9 VIII
 Tel. No. 810 2232
 Date 9 February 1993

To Distribution
 Your Ref. in
 dated _____

Approval for Reduction in Approved Project Estimates

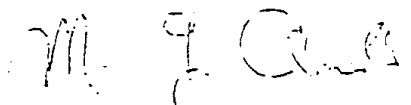
This memorandum introduces simplified procedures to reduce an approved project estimate (APE) where no change of scope is involved.

2. The authority to approve (unlimited) reductions in APEs where no change of scope is involved has been delegated by Finance Committee to the Secretary for the Treasury, Deputy Secretary for the Treasury and Principal Assistant Secretary for the Treasury. Paragraph 23 of Financial Circular 8/90 requires that, where an APE of a project in Category A requires amendment, a submission should be made to Finance Branch in the form of a PWSC paper addressed to the Secretary, PWSC copied to the Works Branch.

3. In future, where there is no change of scope, requests for reductions in APE may be made by memorandum addressed to the Secretary for the Treasury, attention PAS(Tsy)(Works) copied to the Works Branch. (Where the reduction in APE involves a substantial change in scope, the submission must still be made in the form of a PWSC paper as Finance Committee's approval may need to be sought.)

4. The memorandum should contain the subhead, project title, a brief description of the project scope, the original and proposed (reduced) APE, a concise explanation as to why the reduction is proposed and a final statement to confirm that the reduction does not involve any change of scope.

5. Queries on this memorandum should be addressed to PAS(Tsy)(Works) tel. no. 810 2232, fax no. 524 2386.



(M.J. Arnold)
 for Secretary for the Treasury