

**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 2005
AND THE RESULTS OF
VALUE FOR MONEY AUDITS (Report No. 45)**

February 2006

P.A.C. Report No. 45

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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 : Dr Hon Philip WONG Yu-hong, GBS

Deputy Chairman : Hon TAM Heung-man

Members : Hon LAU Kong-wah, JP
Hon Andrew CHENG Kar-foo
Hon Abraham SHEK Lai-him, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Albert Jinghan CHENG

Clerk : Ms Miranda HON Lut-fo

Legal Adviser : Mr Jimmy MA Yiu-tim, JP

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
- (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 2005; and
- the results of value for money audits (Report No. 45),

which were tabled in the Legislative Council on 16 November 2005. 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. 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. 42 and 43 and offers the Committee's views on the action taken. These are detailed in Parts 3 and 4 of this Report.

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

Laying of the Report Report No. 42 of the Director of Audit on the results of value for money audits was laid in the Legislative Council on 21 April 2004. The Committee's subsequent Report (Report No. 42) was tabled on 23 June 2004, 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. 42 was laid in the Legislative Council on 20 October 2004. A progress report on matters outstanding in the Government Minute was issued on 13 October 2005. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 11 below.

Harbour Area Treatment Scheme Stage I (Chapter 3 of Part IV of P.A.C. Report No. 42)

3. The Committee was informed that:

- the Administration had renamed Stage I as Stage 1 to tie in with the use of Stage 2A and Stage 2B to refer to the further stages of the Harbour Area Treatment Scheme (HATS);

Post-implementation review of HATS Stage 1

- the Administration had reported the review findings and recommendations to the Legislative Council (LegCo) Panel on Planning, Lands and Works on 29 June 2004. Most of the recommended improvement measures had been effected, with the remainder in place within 2005. With reference to the recommendation of the post-implementation review, the Drainage Services Department (DSD) had issued DSD Technical Circular No. 8/2004 in October 2004 to replace DSD Technical Circular No. 9/2000 with updated guidelines for improving project management and budgetary control of similar time-critical projects;

Provision of contract instruments and progress payment

- the DSD Technical Circular No. 8/2004 had laid down realistic time limits for overseas companies to submit the required contract instruments such as parent company guarantee and performance bond and to strictly enforce the contract conditions with respect to the time limits for provision of the required contract instruments. It had also included guidelines to ensure that payments were made, as far as possible, in line with the actual progress of works to avoid front-loading of contract payment by contractor;

The use of forfeited plant in completion contracts

- the Environment, Transport and Works Bureau (ETWB) had promulgated new technical circulars in May and September 2004 setting out guidelines to deal with plant ownership and the use of forfeited plant on completion contracts respectively;

Budgetary control over government contracts

- the DSD would regularly re-circulate the internal instruction to remind officers to strengthen budgetary control over government contracts;
- to facilitate the LegCo's monitoring of the use of funds for works projects, starting from February 2005, the Administration had been providing the LegCo with quarterly reports on those contracts awarded when the difference between the accepted tender prices and original estimated provisions in the approved project estimate equalled/exceeded \$15 million or 10% of the latter, whichever was the greater;
- to enhance accountability and transparency, the ETWB had promulgated in October 2003 a technical circular setting out the conditions under which government departments might disclose to the Committee information in connection with dispute settlements;

Site investigation for works projects

- the Geotechnical Engineering Office (GEO) of the Civil Engineering and Development Department had made reference to the experience gained from HATS Stage 1 and issued in January 2005 GEO Technical Guidance Note (TGN) No. 24 which provided guidelines on improved methodology for conducting site investigations for tunnel projects. The DSD would follow the TGN and consult the GEO regularly to conduct comprehensive site investigation for HATS Stage 2;

Monitoring of impact of HATS Stage 1 on the water quality of Victoria Harbour

- the monitoring results obtained by the Environmental Protection Department (EPD) in 2004 indicated that water quality improvements in the central and eastern parts of Victoria Harbour brought by the HATS Stage 1 at the end of 2001 were sustained. In parallel, the E. coli levels in the western part of the Harbour and the Tsuen Wan beaches in 2004 were similar to those in 2003. The EPD would continue to monitor the impact of the HATS discharge on the water quality of Victoria Harbour;

Warning the public not to swim at the closed gazetted beaches

- the Leisure and Cultural Services Department continued to make on-site announcement and display notices at the closed gazetted beaches;

Provision of disinfection facility in HATS Stage 2

- the Administration had completed the public consultation on the way forward for the HATS Stage 2 in November 2004 and had informed the LegCo Panel on Environmental Affairs regarding the results of the consultation and the way forward. The implementation of the HATS Stage 2 was subject to acceptance by the community that the full recurrent costs of the scheme would be recovered through sewage charges; and
- in July 2005, the DSD had commenced an environmental impact assessment study for the advance disinfection facilities. The study was expected to be completed in June 2006.

4. The Committee wishes to be kept informed of the progress of the various courses of action taken by the Administration.

Hong Kong Harbour Fest

(Chapter 4 of Part IV of P.A.C. Report No. 42)

5. The Committee was informed that:

Liaison with the American Chamber of Commerce in Hong Kong (AmCham) on the Government's access to all records on Harbour Fest in order to facilitate any necessary follow-up actions by the Government and the Audit Commission

- after conducting an investigation into Harbour Fest, the Independent Commission Against Corruption (ICAC) decided not to pursue the subject. Taking into account the ICAC's decision, the Director of Audit did not consider it worthwhile to re-examine the records of AmCham and Red Canvas Limited on Harbour Fest;

Consideration of conducting a value for money audit by the Director of Audit on other events and activities sponsored by Invest Hong Kong (InvestHK)

- the Director of Audit was keeping in view the need to conduct a value for money audit on other events and activities sponsored by InvestHK;

The case for considering disciplinary action against any civil servant

- an officer had been subject to disciplinary proceedings. The Administration would give an account of the outcome to the Legislative Council (LegCo) and the general public as soon as the proceedings were completed;

Outstanding tasks relating to Harbour Fest

Broadcast of the Harbour Fest TV video

- since February 2004, the Harbour Fest video had been broadcast on the MTV and MTV2 channels, the Star World International and Star World India channels, and locally on the TVB Pearl channel. It had been further broadcast on the Phoenix TV Chinese channel during Chinese New Year on 9, 10 and 13 February 2005. Geographically, the Phoenix TV covered the mainland of China (including Macau), Singapore, Malaysia, Indonesia, Brunei and the Philippines. According to Phoenix TV, the approximate viewership on Sunday morning (for airtime at the broadcast schedule on 13 February) was 300,000. It did not have breakdown figures for individual weekdays;
- so far, the Harbour Fest video had been broadcast in different markets in the US, Europe, the Middle East and over 30 countries in Asia (including Mainland China and Hong Kong). Since not all the TV channels kept viewership ratings for the programme, an aggregated figure was not available;
- the broadcast of the video was subject to TV rights granted by artists featured in the programme. As revealed by the Independent Panel of Inquiry on Harbour Fest, the time limit for TV broadcast varied from 12 to 24 months. Against this background and given the long lapse of time since the Harbour Fest event took place in autumn 2003, there was no plan for further broadcasting the video on other TV channels. Indeed, any further broadcast on TV might entail substantial editing down of the 45-minute programme, which was considered not cost-effective;

Maximising the use of the performing artists' images for promotion of Hong Kong

- InvestHK had explored the feasibility of using the video footage of Harbour Fest for promotional efforts other than the Economic Relaunch Programme;
- during the four weeks of Harbour Fest, the organisers had distributed clippings of the Harbour Fest shows in the form of video news release to TV network worldwide for free broadcast to promote the event. As outlined above, the TV programme had been widely broadcast in a number of major markets, both overseas and locally. Besides, the Hong Kong Tourism Board

(HKTB) had incorporated some shots of the lively ambience of the full-house stadium at the Harbour Fest venue in one of its promotional videos (without featuring any particular artists). These should have given sufficient exposure of Hong Kong as being the host city of Harbour Fest. At the moment, both the Government and the HKTB did not have further plan to use any of the Harbour Fest video footages for promoting Hong Kong;

- in November 2004, AmCham had confirmed that its contracts with the performing artists did not provide for the use of the video footages for other promotional purposes. After evaluating other legal options available, the Government saw neither significant value nor legitimate ground to pursue the matter any further; and

Hand-over of intellectual property rights in relation to Harbour Fest to the Government

- under clause 8 of the Sponsorship Agreement, AmCham shall be the custodian of all rights and privileges granted, assigned or transferred to AmCham by the Government in relation to Harbour Fest until 31 December 2008. In March 2004, AmCham had indicated its intention to relinquish all such rights and privileges to the Government before 2008. Since then, InvestHK had completed all necessary legal formalities in respect of the transfer of trademarks and domain names of Harbour Fest (registered in the name of Red Canvas Limited) to the Government. The Government was not aware of any other rights. AmCham had also executed a Deed of Assignment, prepared by InvestHK in consultation with the Department of Justice and the Intellectual Property Department, as a matter of legal formality to wrap up the issue of custodianship of rights in pursuance with clause 8 of the Sponsorship Agreement.

Updated position of the disciplinary proceedings

6. In view of the long time taken to complete the disciplinary proceedings relating to the Harbour Fest, the Committee wrote to the Administration, drawing its attention to the fact that it had advised the Committee in May 2005 that the proceedings were expected to be completed by mid-2005 and it would give an account of the outcome to the LegCo. Yet, the LegCo had still not been informed of the outcome. The Committee asked about the reasons for the delay and the current position of the proceedings. The **Secretary for the Civil Service (SCS)** advised, in his letter of 20 January 2006 in *Appendix 3*, that:

- the disciplinary proceedings surrounding the Harbour Fest case, ordered by the SCS under section 10 of the Public Service (Administration) Order (PS(A)O), had been completed. In October 2005, when notified of the decisions made by the SCS on the outcome of the proceedings including the level of punishment, the officer concerned had appealed to the Chief Executive under section 20 of the PS(A)O against the SCS's decisions;

- having considered the propriety of giving an account of the disciplinary proceedings for public consumption before the appeal was ruled on one way or another, the Administration decided to withhold action on reporting the outcome of the case to the LegCo; and
- the appeal to the Chief Executive was currently being dealt with. The Administration would give an account of the outcome of the disciplinary proceedings to the LegCo after the appeal had been disposed of.

7. The Committee wishes to be kept informed of the outcome of the disciplinary proceedings against the officer concerned.

Provision of aquatic recreational and sports facilities

(Chapter 5 of Part IV of P.A.C. Report No. 42)

8. The Committee was informed that:

To improve water quality of the gazetted beaches in Tsuen Wan District

- the Administration had completed public consultation on the way forward for the Harbour Area Treatment Scheme (HATS) Stage 2 in November 2004 and had informed the Legislative Council Panel on Environmental Affairs of the results of the consultation and the way forward. The implementation of HATS Stage 2 was subject to acceptance by the community that the full recurrent costs of the scheme would be recovered through sewage charges. In July 2005, the Drainage Services Department had commenced an environmental impact assessment study for the advance disinfection facilities. The study was expected to complete in June 2006. The Administration would keep in view the result of the study and consider the way forward for HATS Stage 2 with a view to improving the quality of the affected waters to allow reopening of the Tsuen Wan beaches;

De-gazetting of the Rocky Bay Beach

- the Leisure and Cultural Services Department (LCSD) had taken action to resolve the land issue in returning the Rocky Bay Beach to the Lands Department with a view to de-gazetting the beach;

Restoring the Castle Peak Beach to a bathing beach

- the LCSD had reopened the Castle Peak Beach on 1 June 2005;

Closure of the less frequently used urban beaches in March and November each year

- the LCSD had already closed the less frequently used urban beaches including the Shek O Beach, the St. Stephen's Beach, the South Bay Beach, the Chung Hom Kok Beach and the Turtle Cove Beach in March and November each year. Life-saving services had been withdrawn for the whole year permanently at the Hairpin Beach since 1 November 2004;

Providing adequate beach facilities at all gazetted beaches on Lantau Island

- the LCSD had provided essential beach facilities at all gazetted beaches on Lantau Island upon the completion of the construction of toilet and shower facilities at the Tong Fuk Beach;

De-gazetting of the Kiu Tsui Beach on Sharp Island

- a private developer had once shown interest in developing the Sharp Island into a resort. In the light of the future development of Sharp Island, the LCSD would consider de-gazetting the Kiu Tsui Beach and would continue to keep in view the development;

Provision of a full-scale life-saving service at the Lo So Shing Beach and the Kwun Yam Beach

- the LCSD currently provided basic life-saving services at the Lo So Shing Beach and the Kwun Yam Beach. The LCSD would continue to monitor the user level of these two beaches and would consult the Islands District Council (DC) again on the proposal to reduce life-saving services at these beaches during non-peak swimming months if their utilisation remained low;

Monitoring of the user level of gazetted beaches

- the LCSD had been monitoring the monthly attendance of gazetted beaches and taking necessary follow-up actions;

Alignment of fees and charges of all swimming pool complexes

- the LCSD was reviewing the fee structure and evaluating the financial implications arising from various options of fee alignment for the use of public swimming pools;

Swimming during the winter months

- with effect from 1 July 2005, the LCSD had implemented a new arrangement by allocating the available lanes in the less popular swimming pools to the swimming clubs with a view to increasing the utilisation of these pools;

- the LCSD had found that conversion of existing outdoor heated pools into indoor heated pools by the provision of light weight retractable cover was technically not feasible. The LCSD would focus on providing indoor heated pools in future projects to enhance utilisation of swimming pools during the winter months;
- the LCSD would continue to keep the hourly attendance of all swimming pools and review the opening hours of public swimming pools regularly to ensure cost-effectiveness in the operation of these facilities;

Closing five non-heated outdoor swimming pool complexes in the urban areas in November

- the Central and Western DC had reservation on the proposal to close the Kennedy Town Swimming Pool in November but had agreed to open morning sessions only. In addition, the LCSD would carry out major maintenance at the Kowloon Tsai Swimming Pool and the Victoria Park Swimming Pool commencing on 1 September 2005 and 1 November 2005 respectively due to leakage problem; thus these two pools would be closed in November 2005. The LCSD would consult the Eastern DC and the Kowloon City DC again on the proposal to close these two swimming pools in November each year;

Swimming training courses

- the LCSD had completed the review on the Progressive Swimming Scheme in October 2004. The size of swimming classes had been increased by one-third since April 2005 to enhance the cost-effectiveness of the Scheme while not compromising water safety. The LCSD would consider the fees of swimming courses in the overall review of its fees and charges;

Adoption of a fairer basis for assessing the enrolment rate of the water sports centres to provide better management information

- the LCSD would continue to use both “attendance” and “craft hour used” as indicators in assessing popularity of the water sports centres;

Continued development of new programmes to promote public participation in water sports activities

- the LCSD would continue to organise various thematic programmes including ecological tours, geological tours, sailing adventure and tailor-made sea expedition programmes, which were well received by the participants, to promote water sports activities. The LCSD had enhanced the website on services provided by the water sports centres in May 2005 while the production of a new VCD introducing water sports activities, including the newly-introduced multi-hull sailing dinghies, was in progress;

Improvement of the accessibility to the Chong Hing Water Sports Centre

- according to the booking forms, most of the participants preferred to use the free shuttle bus service between Sai Kung Town and the Chong Hing Water Sports Centre (CHWSC). Last year, only some of the participants had used taxi services and none of them had used the private ferries. The LCSD would continue to provide scheduled shuttle bus service for the participants of the CHWSC and to explore ways to improve accessibility to the CHWSC;

Further promotion of land-based facilities as an outing and camping site at the CHWSC

- the LCSD would continue to organise thematic programmes to promote the land-based facilities at the CHWSC. New thematic programmes introduced included the Adventure Camp, Sports Carnival, Campfire Dance Night and Outdoor Survival Skill Training Camp and they were well received by the public. The attendance during non-peak periods had increased from 9,863 in 2003 to 15,396 in 2004;

Organisation of more water sports activities at the Wong Shek Water Sports Centre

- the LCSD would continue to join hands with the Geological Society of Hong Kong to enhance the quality of ecological and geological tours organised by the Wong Shek Water Sports Centre. Over 14 ecological and geological packaged tours were organised each month. They were well received by the public;

Discussion with the Hong Kong Federation of Youth Groups on the Stanley Outdoor Activities Centre

- the new Stanley Main Beach Water Sports Centre had been scheduled to open in October 2005. The overcrowding problem of the St. Stephen's Beach Water Sports Centre (SSBWSC) would be resolved by then. Since there was no appropriate site for swapping with the Hong Kong Federation of Youth Groups (HKFYG), the discussion with the HKFYG regarding the inclusion of the Stanley Outdoor Activities Centre under the management of the LCSD in order to expand the SSBWSC had been suspended;

Meeting the increasing demand for water sports activities at the Tai Mei Tuk Recreation Area

- the 2005 Tai Mei Tuk Regatta, jointly organised by the LCSD and the neighbouring associations, had been successfully held in June this year. The LCSD would continue to invite the neighbouring associations to jointly organise large-scale water sports programmes in the future;

Regular monitoring of the usage of craft at the water sports centres

- in addition to the special programmes such as sailing adventure and ecological touring programmes, a new type of sailing activity with multi-hull sailing dinghies had been introduced since July 2005 to promote the sailing programmes in the water sports centres and to encourage the participants to become regular craft hirers. The new craft was well received by the public. It was an ongoing task of the LCSD to monitor and promote the usage of craft at the water sports centres;

Periodic conduct of user opinion surveys on the usage and hiring charges of the various types of craft at the four water sports centres

- the LCSD would continue to collect users' opinions on each programme by using simple questionnaires and would conduct user surveys in 2006 to enhance the service provided by the LCSD at water sports centres;

Manpower requirements for lifeguards

- the LCSD would regularly review the overall minimum core to non-core lifeguard ratio to ensure cost-effective deployment of lifeguards while not compromising water safety;
- the LCSD had provided the basic life-saving service at the Mui Wo Swimming Pool. The LCSD would continue to monitor the user level of this swimming pool and would consult the Islands DC on shortening the opening hours if the utilisation remained low;

Use of volunteer lifeguards

- the LCSD had worked with the Hong Kong Life Saving Society (HKLSS) for steady provision of honorary lifeguards to selected aquatic venues in 2005. The LCSD would monitor the turnout rate of the honorary lifeguards and review the system in consultation with the HKLSS; and

Deployment of surplus staff during the winter months

- under the Winter Works Programme of 2004-05, the LCSD had deployed surplus staff working in the aquatic venues to undertake life-saving training programmes, mobilisation drills, and first-aid duties at sports centres and sports grounds, and to clear vacation leave in the winter of 2004-05. All records of deployment and assignment of duties were properly kept. The LCSD had reviewed the Winter Works Programme of 2004-05, and would consult the staff unions on the implementation of the Winter Works Programme of 2005-06 in the light of the operational experience gained.

9. The Committee wishes to be kept informed of further progress on the subject.

Training, employment and residential services for people with disabilities
(Chapter 6 of Part IV of P.A.C. Report No. 42)

10. The Committee was informed that:

Outsourcing service units for people with disabilities

- the Social Welfare Department (SWD) was approaching completion on the outsourcing of its rehabilitation service units. Of the two remaining service units, one would continue to be run by the SWD as it served the statutory function of a place of refuge for people with disabilities (PWDs) under the Protection of Children and Juveniles Ordinance. The SWD was reviewing the outsourcing plan for the other, taking into account the staff implications and the SWD's organisational changes in the coming two years;

Reducing waiting time for rehabilitation services

- it was an ongoing effort of the SWD to increase the supply of rehabilitation services to cope with unmet demand. In 2005-06, the SWD would provide 420 additional places in day and residential services for PWDs;
- to more accurately assess the needs of PWDs for residential service, the SWD had adopted a standardised assessment tool in January 2005. Of the 687 cases assessed during the period January to July 2005, 575 cases (84%) were assessed to have genuine needs for residential care and matched with appropriate level of care homes while the remaining 112 cases (16%) were identified to be more appropriate for day care or community support services. The initial results of the assessment reflected that the tool was very useful in identifying the service type and level of care required by PWDs. Provision of rehabilitation service should be suitably adjusted to address the demand for day and residential care;
- the SWD had been strengthening the community support services for PWDs to reduce the demand for residential services. In 2004, the SWD had conducted a comprehensive service review of the effectiveness of the seven community-based support projects. The review involved a large-scale questionnaire survey and self-evaluation reports from non-governmental organisations (NGO) operators, parents groups and service users. The review showed that the community-based services were effective in facilitating the community living of PWDs and in relieving the demand for residential services. In addition to the annual provision of \$30 million, a new annual provision of \$10 million was secured in 2005-06 to enhance the community support services for PWDs;

Implementing private general-practitioner scheme in service units

- the SWD was proactively seeking to put in place measures to implement a private general-practitioner scheme in rehabilitation service units and to provide more appointment slots for their clients;

Review of Marketing Consultancy Office (Rehabilitation)

- the SWD had completed the review on the cost-effectiveness of the Marketing Consultancy Office (Rehabilitation) (MCO(R)) in December 2004. The review affirmed that the MCO(R) had achieved its objectives in enhancing the employment opportunities of PWDs and its overall performance was considered cost-effective. In 2003-04 and 2004-05, the MCO(R) had secured job orders, tender contracts and promotional sales of a total value of around \$9.5 million and \$14.6 million respectively. In addition, the Office had assisted the setting up of 24 small businesses and 12 social firms by NGOs for the employment of PWDs. This had generated notional savings for the Government amounting to around \$8.5 million a year. The review recommended, among other things, that the MCO(R) should accord higher priority to assisting NGOs in setting up social firms, promoting the brand name of “SEPD” (the registered trademark of the products produced and services provided by PWDs), continuing the role in coordinating NGOs for job orders, providing business consultations, organising marketing events and publicity activities, and setting performance indicators for measuring service effectiveness. The recommendations proposed in the review report had been endorsed by the Advisory Committee on Enhancing Employment of People with Disabilities and approved by the Director of Social Welfare. The SWD would follow up the recommendations accordingly;

Modifying the annual self-assessment reports

- the SWD would require NGO operators to adopt a modified annual self-assessment report form for the self-assessments on their service units starting from the new monitoring cycle in April 2006. In addition to the existing levels of attainment, i.e. “attained” and “not attained”, NGO operators had to report in the new form their good practice of selected service quality standards, which might include their innovative and value-added service delivery. The additional information on good practice would serve as reference for the SWD in conducting benchmarking studies on service quality standards;

Making available SWD’s reports on performance of service units

- the SWD would publish every year a consolidated assessment report on its key observations with examples of good practice and areas for improvement. This report would be uploaded onto the SWD’s website for general information and reference of subvented service units from April 2006; and

Involvement of external personnel for advice to rehabilitation service units

- the SWD had implemented a two-year pilot scheme on “Service Quality Groups for Residential Services for PWDs” in the Yuen Long, the Central and Western, and the Islands Districts since January 2005. Under this scheme, DC members and prominent local personnel had been invited to visit the residential rehabilitation homes in the district with a view to giving advice on the operation of the home for the purpose of enhancing service quality. As at the end of July 2005, a total of 14 homes had been visited and the overall feedback was positive. The visits had strengthened the understanding of the operation of rehabilitation homes and the acceptance of PWDs by the community. The SWD would extend the scheme to two other districts in 2005-06.

11. The Committee wishes to be kept informed of further development on the subject.

Laying of the Report 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 2004 and his Report No. 43 on the results of value for money audits were laid in the Legislative Council on 24 November 2004. The Committee's subsequent Report (Report No. 43) was tabled on 23 February 2005, 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. 43 was laid in the Legislative Council on 18 May 2005. A progress report on matters outstanding in the Government Minute was issued on 13 October 2005. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 54 below.

University Grants Committee funded institutions - Governance, strategic planning and financial and performance reporting

(Paragraphs 3 and 4 of Part IV of P.A.C. Report No. 43)

3. The Committee was informed by the Audit Commission in October 2005 that:

Corporate governance of institutions

Amendment to the University of Hong Kong Ordinance regarding the statutory roles of its Council and Court

- the proposed legislative amendments would be submitted to the Court of The University of Hong Kong (HKU) for consideration by the end of 2005. In response to the Committee's enquiry about the progress of the matter, the **Secretary-General of the University Grants Committee (UGC)** said, in his letter of 20 January 2006, in **Appendix 4**, that the HKU Court had agreed at its meeting in December 2005 that the University of Hong Kong Ordinance should be amended so that the descriptions of the respective role of the Court and the Council therein would be consistent with their powers as set out in the relevant statutes. The HKU intended to initiate the relevant legislative amendment process in 2006;

"Fitness for purpose" reviews on the governance structures of the other seven institutions

- as for the Hong Kong Baptist University (HKBU), The Chinese University of Hong Kong (CUHK), The Hong Kong Institute of Education (HKIEd) and The Hong Kong Polytechnic University (PolyU), their reviews were at various stages as follows:

- (a) *HKBU.* The first set of review recommendations would be submitted to the HKBU Council for consideration in October 2005. In the same letter, the **Secretary-General of the UGC** informed the Committee that the HKBU Review Committee on the Governance Structure had completed the first set of recommendations resulting from the “fitness for purpose” review on governance structure, and the report had been approved by the HKBU Council in October 2005. The HKBU would enhance the Council’s role in strategic planning;
- (b) *CUHK.* The Task Force on University Governance had completed the review and the CUHK had approved its recommendation to downsize the University Council for effective governance. To allow the existing members to serve out their present term of membership, the recommendation would be implemented over a period of two to three years;
- (c) *HKIEd.* The legislative amendments regarding the composition of the HKIEd Council and Academic Board would be submitted to the HKIEd Council for consideration by the end of 2005. In his letter, the **Secretary-General of the UGC** advised that the HKIEd Council had decided at its meeting in November 2005 to postpone consideration of the proposed legislative amendments, in view of the need to consider other more pressing issues. The HKIEd Council intended to reconsider the issue before mid-2006; and
- (d) *PolyU.* The PolyU Governance and Management Review Committee had completed the review and concluded that the governance structure of the PolyU was fit for purpose and that the University had an effective management structure. Nonetheless, to refine the PolyU’s governance and management structure, the Review Committee proposed a total of 34 recommendations, most of which had been approved by the PolyU Council. These recommendations included an increase in the number of student representatives in the Council; a reduction in the number of seats for Faculty Deans; uploading the major Council decisions (other than confidential items) onto the University’s intranet; and review of the University’s committee structures and its appeals and grievance procedures. The PolyU would implement these recommendations within the 2005-06 academic year;

Membership, attendance and attendance records in relation to Council meetings

- the HKBU Council would consider in October 2005 the membership, attendance and attendance records in relation to its Council meetings. In his letter, the **Secretary-General of the UGC** said that the HKBU Council decided that the attendance records of Council members would be made available to relevant bodies upon request with justified grounds;

Proposal to set up an audit committee

- the HKBU Council would consider in October 2005 the recommendations of its Review Committee on Governance Structure regarding the proposal to establish an audit committee. In the same letter, the **Secretary-General of the UGC** said that the HKBU Council had accepted the recommendations and decided to establish an audit committee and set up a risk management structure. An Audit Committee had been formally set up, with the appointment of members and approval of the terms of reference as well as membership composition endorsed by the HKBU Council in December 2005; and

Proposal to conduct periodic reviews of the effectiveness of governing bodies

- the status of the reviews of the HKBU and the PolyU was as follows:
 - (a) *HKBU*. The HKBU Council would consider, in October 2005, the recommendations of its Review Committee on Governance Structure regarding the proposal to conduct periodic reviews of the effectiveness of the HKBU's governing body. In his letter, the **Secretary-General of the UGC** advised that the second part of the HKBU's review which covered other areas, including periodic review of the effectiveness of the governing body, the functions and membership composition of the HKBU Court, the relationship between the Court and Council, the effectiveness of the Senate, etc., was targeted for completion within 2006; and
 - (b) *PolyU*. The University Council had agreed to conduct self-evaluation once every two years.

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

University Grants Committee funded institutions – General administrative services
(Paragraphs 5 and 6 of Part IV of P.A.C. Report No. 43)

5. The Committee was informed that:

Provision of senior staff quarters

Action taken by the institutions to address the rent charging practices for staff occupying senior staff quarters while receiving Private Tenancy Allowance or Home Financing Allowance

- The Chinese University of Hong Kong had undertaken to gradually phase out those tenancies of its staff whose Home Financing Allowance were lower than market rents, upon the expiry of their existing rental agreements over the next 20 months as far as practicable. New residents would be charged full market rents for occupancy of senior staff quarters; and

Student hostels

Review of the existing policy on students' grants and loans

- the recommendations of the advisory committee that advised the Administration on the operation of the Local Student Finance Scheme (including the proposed accommodation expenses loan) would be considered after the completion of a number of ongoing reviews on student financial assistance, including another study now being planned on the development of a simpler, more viable and sustainable mechanism for determining and revising the levels of student financial assistance.

6. The Committee wishes to be kept informed of further development on the subject.

University Grants Committee funded institutions - Staff remuneration packages and stipends

(Paragraphs 7 and 8 of Part IV of P.A.C. Report No. 43)

7. The Committee was informed by the Audit Commission in October 2005 that:

Pay structure

The institutions' reviews of their pay structure

- The Hong Kong University of Science and Technology had completed its review on the pay and reward structure of its staff. The status of the reviews for the other two institutions was as follows:
 - (a) *The Hong Kong Institute of Education (HKIEd).* The reviews on titles and salary structure had been completed. The HKIEd Council had approved the new/revised titles and salary structure for academic staff in June 2005 for application to newly-appointed academic staff with effect from 1 September 2005. Regarding the titles and salary structure for non-academic staff, the HKIEd would report staff's feedback collected to the HKIEd Council in November 2005. Moreover, the HKIEd was reviewing the benefits and allowances of both academic and non-academic staff and expected to submit its recommendations to the

HKIED Council for consideration before the end of 2005. In response to the Committee's enquiry about the progress of the matter, the **Secretary-General of the University Grants Committee (UGC)** advised, in his letter of 20 January 2006 in *Appendix 4*, that the HKIED Council had studied the proposal on the titles and salary structure for non-academic staff as well as on the revisions of benefits for both academic and non-academic staff at its meeting in November 2005. A further review was subsequently decided upon and the HKIED Council would consider a revised proposal before mid-2006; and

- (b) *The University of Hong Kong (HKU)*. The HKU expected a salary review report from the consultant by the end of 2005. In the same letter, the **Secretary-General of the UGC** informed the Committee that an external consultancy had been engaged to review the salary structure for non-academic staff. Recommendations were being drawn up, and the review exercise was expected to be completed before mid-2006;

The Hong Kong Polytechnic University (PolyU)'s review on the effect of section 9(3)(c) of The Hong Kong Polytechnic University Ordinance and its proper application

- the PolyU Governance and Management Review Committee had reviewed the role of the PolyU Council and had recommended that appropriate amendments be made to section 9(3)(c) and other relevant sections of The Hong Kong Polytechnic University Ordinance to define more clearly the Council's role to approve the University's policy governing the terms and conditions of service of staff. The Committee's recommendation was approved by the PolyU Council. The PolyU intended to submit its proposal for legislative amendments to the Administration for consideration in the 2005-06 academic year; and

Administration of leave

The institutions to address the problems associated with the excessive leave entitlements and the encashment of leave

- the position of the reviews by the HKIED and the HKU was as follows:
 - (a) *HKIED*. As part of the staff benefits review, the HKIED was reviewing the vacation leave entitlement of staff and expected to submit its recommendations to the HKIED Council for consideration before the end of 2005. In his letter, the **Secretary-General of the UGC** said that the HKIED Council had studied, at its meeting in November 2005, the proposed revisions of benefits for both academic and non-academic staff, which included a review of the vacation leave entitlement for staff. A further review on some parts of the proposed revisions of benefits

was subsequently decided upon and the HKIED Council would be asked to consider a revised proposal before mid-2006; and

- (b) *HKU*. The HKU would complete the review to address the problem of excessive leave entitlement and encashment of leave for non-academic staff by the end of 2005. In the same letter, the **Secretary-General of the UGC** advised that the HKU Council had considered the problem of excessive leave entitlement in December 2005. As leave entitlement was part of the contractual agreement, the HKU considered that encashment of long leave followed by (the much reduced) compulsory annual leave was the most practical and effective way of addressing the problem. The HKU Council had approved the launching of the third round of long leave encashment with a view to encouraging eligible staff members to move from the Long Leave Scheme to the Annual Leave Scheme.

8. The Committee wishes to be kept informed of further development on the subject.

Financial performance of the Post Office

(Paragraphs 3 and 4 of Part V of P.A.C. Report No. 43)

9. The Committee was informed that the Post Office (PO), together with the Economic Development and Labour Bureau and the Financial Services and the Treasury Bureau, continued to examine critically the challenges to the PO's operation as identified by the Committee. Apart from the PO's financial performance and operation as a trading fund, the studies had covered issues relating to the postal services market, including global developments and overseas experience in reforming the postal services. The PO was also examining its network of branch offices' operations. As interrelated complex issues were involved, more detailed studies on these were ongoing. The PO was also examining the impact of new terminal dues adopted by the Universal Postal Union with effect from 1 January 2006.

10. The Committee wishes to be kept informed of the results of the comprehensive review of postal policy and services.

Provision of slaughtering facilities for supplying fresh meat

(Paragraphs 5 and 6 of Part V of P.A.C. Report No. 43)

11. The Committee was informed that:
- the Architectural Services Department (ArchSD) had already completed its review on the adequacy of the holding capacity of lairages and handling

capacity of meat despatch bank and vehicle washing facility of the Sheung Shui Slaughterhouse (SSSH). Since August 2005, in consultation with the Food and Environmental Hygiene Department (FEHD), the Arch SD had started to draw up the scope of technical requirements for a consultancy to examine the feasibility of modifying the SSSH to cater for the increase in the slaughtering throughput of pigs. Information relating to the operation of the SSSH and the associated traffic and environmental impact issues, such as noise, odour and waste disposal, was being collected for drafting the tender requirements; and

- the Arch SD planned to invite bids for the consultancy in October 2005 with a view to awarding the contract in December 2005. The study would be completed in early 2006. The FEHD would consider the findings of the study and other related factors before making recommendations on the feasibility of centralising the slaughtering operation of livestock at the SSSH and the way forward.

12. The Committee wishes to be kept informed of the progress made in ascertaining the feasibility of centralising the slaughtering operation of livestock at the SSSH and the FEHD's recommendations on the way forward.

Services provided by the Official Receiver's Office
(Paragraphs 7 and 8 of Part V of P.A.C. Report No. 43)

13. The Committee was informed that:

Consultancy study and fees of the Official Receiver's Office

- the Bankruptcy (Amendment) Ordinance 2005 was passed by the Legislative Council on 6 July 2005 and gazetted on 15 July 2005. It was expected to come into operation after the corresponding subsidiary legislation and administrative logistics were made ready in 2006. When the Amendment Ordinance became operative, it would facilitate outsourcing of debtor-petition summary bankruptcy cases to the private sector insolvency practitioners (PIPs) by the Official Receiver's Office (ORO). The question of fees and cost recovery rates would be reviewed after the implementation of the outsourcing; and
- as regards other recommendations of the consultancy study, the ORO would consider the proposed "cab-rank" system and some form of authorisation of the PIPs in the context of the evaluation of the implementation of the outsourcing arrangements in the future.

14. The Committee wishes to be kept informed of further development on the subject.

Recoverability of the outstanding advances to the United Nations High Commissioner for Refugees

(Paragraphs 9 and 10 of Part V of P.A.C. Report No. 43)

15. The Committee was informed that:

- the Administration had continued to urge the United Nations High Commissioner for Refugees (UNHCR) to make renewed efforts to look for donations from other countries with a view to settling the outstanding advances, which remained at \$1,162 million. The Security Bureau had written to the Head of Hong Kong Sub-office of the UNHCR in May 2005 for this purpose and made clear the Administration's stance again during meetings with the representatives of the UNHCR in June and July 2005; and
- the UNHCR had reiterated that due to budget constraint and priority to cope with other more pressing refugees and humanitarian issues, it was not optimistic that further donations would be received to repay the outstanding advances. Nevertheless, the Administration would continue to pursue repayment of the outstanding advances.

16. The Committee wishes to be kept informed of the action taken by the Administration in pressing the UNHCR to repay as soon as possible the outstanding advances to the Government of the Hong Kong Special Administrative Region.

Footbridge connections between five commercial buildings in the Central District

(Paragraphs 11 and 12 of Part V of P.A.C. Report No. 43)

17. The Committee was informed that:

- as the column of the proposed footbridge linking Building I (i.e. Aon China Building) and Building II (i.e. Entertainment Building) would affect the station entrances/exits of the proposed Shatin to Central Link (SCL) of the Kowloon-Canton Railway Corporation (KCRC), the KCRC had raised objection to the proposed footbridge during consultation; and
- the Administration was assessing the KCRC's draft Final Proposal on the SCL and the SCL proposal jointly developed by the KCRC and the Mass Transit Railway Corporation Limited under the Merger Study. The Administration would consider the way forward for the footbridge proposal in conjunction with the SCL Scheme.

18. The Committee wishes to be kept informed of the way forward for the footbridge proposal in conjunction with the SCL Scheme.

Water purchased from Guangdong Province

(Paragraphs 17 and 18 of Part V of P.A.C. Report No. 43)

19. The Committee was informed that:

Further efforts to incorporate more favourable terms in future water supply agreements, including more flexibility in the supply arrangements

- the Administration's negotiation with the Guangdong side on the review of the supply quantities and prices for 2005 and onwards was ongoing. To ensure a stable water supply to Hong Kong for 2006, a roll-over arrangement had been put in place; and
- the Administration would continue its utmost effort to negotiate for more favourable terms with the Guangdong side, including more flexibility in the supply quantities to suit Hong Kong's needs in the new water supply arrangement.

20. The Committee wishes to be kept informed of the Administration's further efforts to incorporate more favourable terms in future water supply agreements, including more flexibility in the supply arrangements.

Provision of legal aid services

(Paragraphs 21 and 22 of Part V of P.A.C. Report No. 43)

21. The Committee was informed that, in respect of measures to contain the costs of legal aid, a Steering Committee comprising representatives from the Administration Wing, the Legal Aid Department (LAD), the Judiciary and the Home Affairs Bureau had been monitoring the progress of the Pilot Scheme on mediation of legally aided matrimonial cases. As it would take time for the proceedings involving cases under the Pilot Scheme to conclude, the LAD aimed at completing the evaluation of the outcome of the Pilot Scheme by 2007-08.

22. The Committee wishes to be kept informed of further development on the subject.

Residential services for the elderly

(Paragraphs 23 and 24 of Part V of P.A.C. Report No. 43)

23. The Committee was informed that the Administration had consulted the Elderly Commission and the Legislative Council Panel on Welfare Services in November and December 2004 respectively on its proposal to launch a trial scheme to provide infirmary care places for medically stable elders in a non-hospital setting. In the light of feedback from Panel members and the sector, the Administration was considering the best way to bring forward the proposal. The Administration aimed to come up with a way forward in a few months after October 2005.

24. The Committee wishes to be kept informed of further development on the subject.

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

(Paragraphs 25 and 26 of Part V of P.A.C. Report No. 43)

25. The Committee was informed that:

Customs audits of oil companies

- the Customs and Excise Department (C&ED) had completed a pilot scheme with an oil company and had successfully developed an audit programme for the oil company using the system-based approach (SBA) model. The pilot scheme had shown that it was both practicable and effective to apply the SBA model in auditing oil companies. The C&ED aimed to apply the SBA model to all oil companies by April 2006; and

Trial Scheme of "Red and Green Channels"

- the facilities for implementing the "Red and Green Channels" at the control points and the airport would be ready in October 2005. The C&ED would launch a series of publicity programmes before the implementation of the trial scheme in November 2005. In response to the Committee's enquiry about the updated progress of the trial scheme, the **Commissioner of Customs and Excise** informed the Committee, in his letter of 20 January 2006 in *Appendix 5*, that:

- (a) *The Red and Green Channels.* With effect from 1 November 2005, the C&ED had implemented a new mode of Customs clearance service for passengers, the Red and Green Channel System (the System), at all entry points. Under the new mode, passengers arriving in Hong Kong would make Customs declarations by choosing to be processed either at

the Red Channel or Green Channel. Passengers having items to be declared were required to choose the Red Channel, otherwise they could proceed to the Green Channel;

- (b) *Publicity.* The C&ED had launched a publicity campaign since October 2005 to publicise the System through announcements of public interest on television and radio, posters, leaflets, and video clips shown in arrival flights. A press conference had been held on 20 October 2005 to announce the implementation of the System. The public could also obtain information from the departmental website and telephone hotline; and
- (c) *Implementation progress.* From the review on the implementation of the System, it was observed that the majority of the passengers could quickly adapt to the new mode of clearance. Moreover, the daily duties and compounding penalties collected, dutiable commodities abandoned, and the number of prosecution cases had increased. This showed that the System had successfully achieved the objectives in facilitating passenger clearance and enhancing revenue protection on dutiable goods.

26. The Committee wishes to be kept informed of the further progress made in adopting the SBA in custom audits of oil companies and in conducting the trial scheme of the “Red and Green Channels” for the prevention and detection of abuses of duty-free concessions by incoming travellers.

Special Finance Scheme for small and medium enterprises

(Paragraphs 27 and 28 of Part V of P.A.C. Report No. 43)

27. The Committee was informed that the Treasury had been processing claims for compensation with the assistance of the Department of Justice and the Hong Kong Monetary Authority as necessary. So far, 1,392 claims involving a total of \$329 million had been settled. Another 33 claims involving a total of \$12 million had been suspended from processing as requested by the participating lending institutions in view of active repayment by the borrowers. The Treasury was processing the remaining 85 cases involving a total of \$25 million.

28. The Committee wishes to be kept informed of further progress on the subject.

Small house grants in the New Territories

(Paragraphs 29 and 30 of Part V of P.A.C. Report No. 43)

29. The Committee was informed by the Audit Commission in October 2005 that:

Implementation of small house policy

- the Housing, Planning and Lands Bureau (HPLB) and the Lands Department (Lands D) had been compiling data and conducting researches with a view to formulating proposals relating to the small house policy. They would consult various stakeholders on the way forward;

Checking of indigenous villager status

- the Lands D had consulted the Heung Yee Kuk (HYK) and obtained its agreement on the revised practice. As a general requirement, a statutory declaration would be made by the Indigenous Inhabitant Representative for the purpose of certifying an applicant's indigenous villager status. As for doubtful cases, the Lands D would carry out detailed investigation, upon presentation of additional information and evidence to establish the applicant's eligibility for small house grant; and

Processing of small house grant applications

- the Lands D had streamlined the processing procedures. As agreed with the HYK, applications would be classified into two categories: straightforward and non-straightforward applications. For the former, the small house grant document would be made available for execution by the applicant within 24 weeks from the date of interview by the Lands D. For the latter, the applicant would be allowed a period of 12 months to resolve all the technical problems/local objections encountered in the process. Now that the revised practice for certifying the indigenous villager status of small house applicants had been formulated and taking into account the progress being made in respect of the discussions to resolve other related issues, a set of streamlined processing procedures for small house applications would be implemented shortly.

Updated position of processing of small house grant applications

30. In the light of the progress made regarding the processing of small house grant applications, the Committee wrote to the Secretary for Housing, Planning and Lands, drawing his attention to the fact that, in December 2002, he undertook to pursue within the tenure of his office the review of small house policy and related issues in a comprehensive manner and he hoped to resolve the problems associated with the policy once and for all within that time scale. The Committee further pointed out that, in June 2005, it had urged

the Administration to expedite actions regarding the implementation of the small house policy and processing of small house grant applications, with a view to concluding them as early as possible. In response, the Administration informed the Committee in July 2005 that:

- work had continued on various issues relating to the policy, including the compilation of data for analysis and researches into ways to address various aspects. The Administration would consult various stakeholders with a view to formulating preliminary proposals on the policy for more in-depth discussion; and
- as the revised practice for certifying the indigenous villager status of small house applicants had been formulated, and together with resolving some other related issues, a set of streamlined processing procedures for small house applications could be put into practice shortly.

31. Noting that the position of the above issues in October 2005 remained substantially the same as that in July 2005, the Committee asked about the progress of work regarding the streamlined procedures. In response, the **Secretary for Housing, Planning and Lands** advised, in the letter of 20 January 2006 in **Appendix 6**, that

- to take forward the review of small house policy, the HPLB had set up an inter-departmental Steering Committee to look into various issues relating to the small house policy. This was a very complex subject which required the HPLB to consider the social, economic and environmental development in the New Territories and the whole of Hong Kong since its introduction in 1972. The HPLB was studying the various issues and had yet to complete them for the formulation of preliminary proposals. The HPLB would continue its efforts and report progress as and when it was ready; and
- cooperation of the HYK was essential to the smooth implementation of the streamlined procedures for processing small house applications. The HPLB had been engaging in active dialogue and negotiation with the HYK in respect of certain aspects under the proposed streamlined procedures, including the requirement for small house applicants to make statutory declarations, and the revised procedures for handling objections to small house applications. Discussion with the HYK was still on-going. The HPLB would put in place the set of streamlined procedures as soon as the above matters were resolved.

32. The Committee wishes to be kept informed of the progress of the various courses of action taken by the Administration.

Public markets managed by the Food and Environmental Hygiene Department
(Paragraphs 37 and 38 of Part V of P.A.C. Report No. 43)

33. The Committee was informed that:

Comprehensive review on the market stall vacancy rate of public markets

- the Food and Environmental Hygiene Department (FEHD) continued to take various initiatives to promote public markets. The FEHD had been proactively approaching potential tenants with a view to introducing new lines of business into three selected markets, namely, the Sai Wan Ho Market, the Yan Oi Market and the Luen Wo Hui Market. Parties approached included commercial companies and non-government organisations;
- as continued efforts to promote public markets and to attract more customers, the FEHD had organised a variety of promotion activities such as competitions, workshops, talks, carnivals and exhibitions in selected markets. Decoration and signage were added and installed to improve the environment in some public markets. The FEHD had also published quarterly newsletters to the tenants, market customers and the public to disseminate information on markets and other relevant topics with a view to enhancing communication;
- as regards the long-standing vacant small stalls which could technically be merged into larger stalls, the Architectural Services Department (ArchSD) had so far put in place 76 merged stalls. The FEHD had been offering these stalls for bidding in public auctions with three stalls successfully let out so far;
- as regards the survey to examine whether there had been changes in public shopping habits, the final report on the survey was being prepared. The FEHD would take the result of this survey into account in deciding whether it was feasible to set a target market stall vacancy rate (MSVR) for individual markets. In any case, the FEHD would continue to explore ways and means to reduce the MSVRs of public markets;

Review of the demand for public market facilities

- the joint comprehensive review by the Health, Welfare and Food Bureau (HWFB) and the FEHD on wet market policy was still ongoing. The current planning standards for the provision of market facilities in the Hong Kong Planning Standards and Guidelines were one of the topics covered by the review. The review would be completed in early 2006;

Study to identify markets that might merit closure and details of the HWFB's rationalisation plan to be drawn up

- the HWFB and FEHD were undertaking a review on wet market policy, and closure of markets with serious and insurmountable viability problems would form part and parcel of the review. The review would be completed in early 2006. Based on the results of the FEHD's study on market viability problems and the policy review, the FEHD would consult the relevant stakeholders including the affected stall tenants and the District Councils and then draw up the rationalisation plans;
- separately, in response to a request from the Food and Environmental Hygiene Committee (FEHC) of the Yau Tsim Mong District Council (YTMDC) and the stallholders, the FEHD was now drawing up proposals to close the Mong Kok Market due to its non-viability. The FEHD would consult the FEHC and the tenants in due course;

Reassessment of the need to retrofit air-conditioning system in public markets, including the Yue Wan Market, the San Hui Market and the Fa Yuen Street Market

- the Legislative Council Panel on Food Safety and Environmental Hygiene considered that the air-conditioning (A/C) retrofitting projects for these three markets should continue to proceed provided that they had the support from the relevant District Councils and met the Government's criteria of receiving support from 85% of the market tenants or more. Works for retrofitting the A/C system in the Yue Wan Market had been completed in March 2005 while works for the San Hui Market commenced in September 2005. Subject to the outcome of further consultation with concerned stall tenants and the YTMDC, the FEHD planned to retrofit the A/C system in the Fa Yuen Street Market and Cooked Food Centre when implementing the general improvement works;

Identification of beneficial permanent use of vacant market floor space in the Fa Yuen Street Market and the To Kwa Wan (TKW) Market

- the YTMDC had no objection to the FEHD's proposal of converting the vacant floor space in the Fa Yuen Street Market into a government office. The conversion project was expected to commence in the third quarter of 2006. The office would be allocated to the FEHD for use; and
- the Government Property Agency (GPA) advised that despite its repeated efforts, no government department indicated interest in using the vacant basement floor in the TKW Market. The FEHD would continue to use the basement floor for storage of cleansing gear until the space was required by other departments.

Updated position regarding the identification of beneficial permanent use of vacant market floor space in the TKW Market

34. In view of the information provided by the GPA, the Committee asked the Administration:

- since the publication of the Committee's Report in February 2004, which government departments had applied for office accommodation, as well as the locations and areas of the relevant accommodation; and
- whether the departments had considered using the vacant floor space in the TKW Market as their office accommodation.

35. The **Government Property Administrator** informed the Committee, in the letter of 20 January 2006 in **Appendix 7**, that:

- on 8 January 2004, a meeting was held among the FEHD, the Financial Services and the Treasury Bureau, the ArchSD and the GPA to discuss, inter alia, how to put the vacant basement at the TKW Market to beneficial use. It was agreed that the vacant basement might not be suitable for office purpose, and that the GPA would liaise with other departments, e.g. the Customs and Excise Department (C&ED) and the Leisure and Cultural Services Department (LCSD), to see whether there would be interests in using the vacant floor for storage purpose;
- after the meeting, the GPA had circulated the space for application by bureaux/departments in its quarterly exercise but no bid was received. In parallel, the GPA had also, in January 2004, invited three departments, namely the C&ED, the LCSD and the Post Office, to consider using the basement of the TKW Market for storage purpose. However, all of them had declined the offer after site inspections. (A summary of the views of the departments concerned and of the ArchSD was provided at Appendix A to the above letter.) It could be seen from the comments, in particular those from the ArchSD, that the basement was not suitable for use as office or for storage of objects which could be damaged by sewage. It was underneath a public market and there was presence of a large number of drainage pipes, and the use of the basement was constrained by the limited headroom, unsatisfactory hygienic environment and the lack of lift service; and
- since the publication of the Committee's Report in February 2004, the GPA had met 127 accommodation requests from government departments. (A summary of the requests with details of the space was provided at Appendix B to the above letter.) The availability of the basement for allocation had been covered by the GPA's regular circulation but no bid had been received. In considering these accommodation requests from

departments, the GPA had also, taking into account the above observations, assessed and considered if the basement could meet their requirements.

36. The Committee wishes to be kept informed of further development on the subject.

Buildings Department's efforts to tackle the unauthorised building works problem
(Paragraphs 41 and 42 of Part V of P.A.C. Report No. 43)

37. The Committee was informed that:

Extent of compliance with section 24 orders and complaint cases

- the Buildings Department (BD) had deployed additional resources and set performance targets to speed up the clearance of long outstanding unauthorised building works removal orders. Progress in clearing these outstanding removal orders was satisfactory. The BD had achieved 99.3% of the target of clearing by March 2005 all outstanding removal orders issued before 1991. The BD was actively pursuing the remaining five outstanding cases. The BD had set new targets to clear 100%, 85%, 80% and 70% of the orders issued between 2000 and 2001, and in 2002, 2003 and 2004 respectively by March 2006. The BD had published these new targets together with the actual performance on its website since May 2005 and would update the actual performance regularly to improve accountability to the public;

The Coordinated Maintenance of Buildings Scheme (CMBS)

- under the new modality of the CMBS adopted in 2005, 150 target buildings had been selected for improvement of safety and outlook. The BD would review in October 2005 the effectiveness of the new modality for implementing the CMBS. In response to the Committee's enquiry about the progress of the review, the **Director of Buildings** responded, in his letter of 24 January 2006 (in *Appendix 8*), that:
 - (a) *The Review.* An interim review had been carried out in November 2005 to evaluate the effectiveness of the new modality of the CMBS. The scope of the interim review was, however, limited by the information available and the tasks that could be completed at such an early stage of implementation of the CMBS 2005;
 - (b) *Findings.* Compared with previous operations, there had been a substantial saving in the BD's resources in the CMBS 2005. Under the new modality, the BD had reduced its staff input to about 50% of that

under the CMBS 2000. Some of the work had been taken up by the Hong Kong Housing Society (HKHS). As incentives to carrying out the improvement works, the HKHS provided interest-free loans and subsidies for procurement of third party insurance to eligible owners. Formation of Owners' Corporations (OCs) was important for better building management and maintenance. The HKHS had made significant contributions in this aspect. Within the first six months of the operation of the CMBS 2005, owners of 10 target buildings had agreed to form OCs and three of these buildings had been issued with the certificate of registration, whereas only one OC was formed during the first six-month period under the CMBS 2000. Owners of another 36 buildings had also shown keen interest in forming OCs. Moreover, owners of some remaining buildings were actively pursuing the improvement works under the joint efforts of the HKHS and their property managers. As compared with previous operations, the number of target buildings in which the first meetings with owners to kick-start the operation could be held within the first six months had increased from 30 (out of 200 target buildings) in the first two CMBSs to 56 (out of 150 buildings) in the 2005 CMBS; and

- (c) *Way forward.* The findings of the interim review indicated that the new modality had been effective in saving the BD's resources in providing technical support to owners. It was also effective in strengthening the support to the owners and the coordination in the arrangement for the improvement works. It was anticipated that this would contribute to achieving the objective of the CMBS in educating and encouraging building owners to take better care of their buildings, as well as the smooth completion of the improvement works within the 18-month programme of the CMBS 2005. The progress of the CMBS 2005 and the effectiveness of the new modality would be closely monitored. Depending on the achievement in the ensuing months, the programme of the CMBS 2005 would be suitably adjusted as necessary; and

Control of signboards

- the Administration intended to introduce the Buildings (Amendment) Bill in the 2005-06 legislative session to take forward the proposed regime. The Director of Buildings would carry out a post-implementation review of the regime to ascertain its effectiveness.

38. The Committee wishes to be kept informed of further development on the BD's modified CMBS and control of signboards.

Planning and provision of public secondary school places

(Paragraphs 43 and 44 of Part V of P.A.C. Report No. 43)

39. The Committee was informed that, in respect of the need for buying school places from caput schools, the Education and Manpower Bureau (EMB) would take follow-up actions as ongoing activities. As regards school places provided by Direct Subsidy Scheme (DSS) schools, the EMB would continue to monitor the development of DSS schools, with particular attention to their trend and pattern of enrolment.

40. The Committee wishes to be kept informed of the development of the DSS schools, with particular attention to the trend and pattern of their enrolment.

The acquisition and clearance of shipyard sites

(Paragraphs 45 and 46 of Part V of P.A.C. Report No. 43)

41. The Committee was informed that:

Resumption and clearance of the North Tsing Yi shipyard site

- the recommendations in paragraph 2.14 of the Director of Audit's Report No. 41 mainly related to the need to hold tenants under short term tenancies (STTs) to their contractual obligation of clearing structures when the STTs were terminated. The Director of Audit had recommended that where a waiver of this obligation was considered necessary, the prior approval of the Secretary for Financial Services and the Treasury had to be sought. Also, the Director of Lands should state clearly in the Lands Administration Office Instructions (LAOI) the specific justifications under which an STT tenant might be exempted from clearing the site upon termination of the tenancy;
- given the fact that some STT tenants of shipyard sites at North Tsing Yi might have genuine financial difficulties in arranging for the demolition of their structures, there might be a need to exempt certain clearerees from complying with the self-demolition requirement on compassionate grounds. The relevant bureaux and departments were examining this matter. At the same time, the Lands Department (Lands D) was also exploring measures to better enforce the self-demolition requirement. Subject to the outcome of the foregoing exercises, the LAOI would be amended as recommended by the Director of Audit. In response to the Committee's enquiry about the progress of the matter, the **Director of Lands** said, in his letter of 23 January 2006 in *Appendix 9*, that:
 - (a) the Lands D remained of the view that there would be practical difficulties in requiring the tenants of all types of STTs to demolish their structures upon termination of the tenancies, and that there might be a need to exempt certain tenants from the self-demolition requirement; and

- (b) the Lands D was still looking into details of the matter with relevant bureaux and departments, and would report the progress as and when it was ready;
- as regards the issue of the recovery of the decontamination costs of the North Tsing Yi shipyard sites, after considering further detailed legal advice from both overseas and local counsel and reports from environmental consultants, the Government had concluded that, based on the actual circumstances and facts of these particular cases including the conditions of the tenancies and leases, the prospect of successfully pursuing the protective writs was not good enough to justify pursuing legal action against the ex-tenants/lessees for recovery of the decontamination costs, bearing in mind the potential costs of legal proceedings. Accordingly, the Government had decided not to take any further action to recover these costs; and

Assessment of contamination at the Penny's Bay shipyard site

- on the recovery of decontamination costs from the ex-lessee of the Penny's Bay shipyard site or the shipyard operator, the Leading Counsel had advised that, in light of the "as is" condition in the deed of surrender, there was no cause of action to recover the decontamination costs except that, subject to expert evidence, the Court could be asked to take into account the decontamination costs in determination of the ex-lessee's claims under the Foreshore and Sea-bed (Reclamations) Ordinance. The Government was acting in accordance with this advice. In response to the Committee's enquiry about the progress of the matter, the **Director of Lands** advised in the same letter that:
 - (a) the ex-lessee of the Penny's Bay shipyard site had made an application to the Lands Tribunal for an order that a hearing be held to determine certain points of law as preliminary issues, which included the issue of whether the costs of decontamination of the site should be taken into account in determining the ex-lessee's claim for compensation under the Foreshore and Sea-bed (Reclamations) Ordinance; and
 - (b) the President of the Lands Tribunal had heard the application on 16 January 2006 with judgment reserved.

42. The Committee wishes to be kept informed of the progress of the various courses of action taken by the Administration.

Funding of tertiary education

(Paragraphs 47 and 48 of Part V of P.A.C. Report No. 43)

43. The Committee was informed that:

University Grants Committee (UGC)'s endeavours in benchmarking the cost of tertiary education

- the UGC was drawing up detailed specifications for the engagement of a consultancy on the costing and funding methodology of the UGC-funded sector for the implementation of a robust and comprehensive activity-based costing system; and

Funding of self-financing activities

- the UGC had updated the relevant parts of the UGC Notes on Procedures to reinforce the policy that public funds should not be used to subsidise self-financing activities. The UGC was studying the overhead cost structure and the amount of overhead charges involved in student hostel operation. Subject to the outcome of the study, the UGC would consider how overhead charges involved in student hostel operation should be dealt with.

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

Control and monitoring of District Council expenses and related activities

(Chapter 1 of Part VIII of P.A.C. Report No. 43)

45. The Committee was informed that:

Progress of implementing the removal of the administrative measure regarding tax deduction

- the Administration had decided to withdraw the administrative measure of allowing, without query, a tax deduction of 50% of the honorarium of District Council (DC) Members. In order to avoid causing undue inconvenience and confusion to DC Members, the change would take effect as from 2006-07 rather than 2005-06. The Administration had informed all DC Members accordingly;
- in consultation with the Inland Revenue Department (IRD), the Home Affairs Department (HAD) had drawn up a work plan to ensure a smooth implementation of the proposal. The HAD would brief all DC Members in full on detailed arrangements before withdrawing the administrative measure;

Decision and progress made on the Committee's recommendation that 50% of a DC Member's honorarium be converted to the Operating Expenses Allowance (OEA)

- the Committee's recommendation for the Administration to consider converting 50% of the DC Members' honorarium into the OEA so that the DC Members' honorarium, similar to those of the Executive Council and the Legislative Council Members, was all taxable involved a fundamental change to the DC Members' remuneration package. The HAD planned to consult the Independent Commission on Remuneration for DC Members (the Independent Commission) in October 2005. In addition, the HAD intended to ask the Independent Commission to review the lists of reimbursable and non-reimbursable items for the OEA claims. These lists would help provide a clear reference to DC Members as well as the IRD for tax deduction purposes;
- the HAD had consulted DC Members on the Committee's recommendation and was now carefully reviewing its full implications, taking into account DC Members' views;

Progress of reviewing the HAD Guidelines on the reimbursement of the OEA and the Information Technology and Other Support Grant (ITOSG)

- subsequent to the briefing for DC Members in January 2005 to collect their feedback, the HAD had drawn up a list of proposed improvements to the guidelines taking into account the recommendations in the Director of Audit's Report No. 43 and suggestions from DC Members;
- the HAD had reviewed the scope of the OEA and the ITOSG and had prepared two updated lists of reimbursable and non-reimbursable items under them. The lists had been included as part of the proposed revisions to the guidelines, which were being circulated to the relevant bureaux/departments for comments. In parallel, the Independent Commission Against Corruption (ICAC) had also reviewed the principles, procedures and guidelines governing the OEA and the ITOSG and had made preliminary proposals for improvement to the guidelines; and
- the HAD had organised two seminars in conjunction with the ICAC on 25 July and 2 August 2005 respectively to brief and consult DC Members on the proposed revisions to the guidelines. The HAD and the ICAC had further reviewed the proposals taking into account the views of and suggestions made by DC Members before consulting the Independent Commission.

46. The Committee wishes to be kept informed of further progress on the subject.

Government subsidies to the English Schools Foundation

(Chapter 2 of Part VIII of P.A.C. Report No. 43)

47. The Committee was informed that:

- the Education and Manpower Bureau would work closely with the English Schools Foundation (ESF) to complete the subvention review. Since the input of the ESF on matters such as its costing structure and development strategy was crucial for the review, substantive discussions would be possible only after the ESF had implemented its governance reform and put in place a sound governance structure. To this end, the ESF had carried out the review of the governance of the ESF according to its schedule; and
- pending an agreement with the ESF on its long-term subvention arrangement, the Administration would continue to require the ESF to deliver savings and implement the agreed reductions in subvention to the ESF through improvement of efficiency.

48. The Committee wishes to be kept informed of further development on the subject.

Corporate governance and Headquarters administration of the English Schools Foundation

(Chapter 3 of Part VIII of P.A.C. Report No. 43)

49. The Committee was informed that:

Corporate Governance

- the English Schools Foundation (ESF) had approved a new governance framework on 29 June 2005. It had commissioned lawyers to prepare a private member's bill for introduction into the Legislative Council (LegCo) to make necessary amendments to The English Schools Foundation Ordinance. The ESF had also planned to lay revisions to the Regulations under the Ordinance before the LegCo for scrutiny. Under the current proposal of the ESF, the bill would address the key issues of concern raised by the Committee, including the need to contain the size of the Foundation, to separate management functions from the governance body, to increase the proportion of independent members on the Foundation, to improve attendance at Foundation meetings, to review staff voting right on pay and benefits at Foundation meetings, and to establish an internal audit committee. The ESF intended to invite its members to approve the draft bill in due course, with a view to introducing the bill in the LegCo in the 2005-06 legislative session;

- it had been the Administration's practice to avoid micro-managing subvented organisations and to refrain from joining the governing bodies of school sponsors. In line with the existing practice, the Administration had advised the ESF that the Government would no longer be represented on the new Board of Governors or other management committees of the ESF under the new governance structure;
- on the role of the Foundation Office, the ESF had commissioned an independent management consultant to conduct a review. After interviewing members of the Executive Committee of the ESF, principals, school council chairmen, parents and staff, the consultant recommended that the central office should be retained to secure quality, coherence and economies of scale in the management of ESF schools. However, the consultant suggested sweeping changes with regard to the work practices of the Foundation Office. The ESF had published the findings of the review and planned to implement the proposed changes in the early autumn of 2005. In response to the Committee's enquiry about the details of the review and the implementation timetable, the **Chief Executive, ESF**, advised, in her letter of 20 January 2006 in **Appendix 10**, that the implementation of the changes with regard to the work practices of the Foundation Office was in progress and a new management team would be in place in January 2006. Details of the review on the role of the Foundation Office are provided in the progress report attached to her letter;

Others

- the ESF was continuing with its remuneration review and had started staff consultation on the remuneration and benefits for principals and teaching staff. As recommended by the Committee, the ESF would also review the benefits and responsibility allowances of its staff, including housing benefits. In response to the Committee's enquiry about the progress of the reviews, the **Chief Executive, ESF**, informed the Committee in the same letter that:
 - (a) the revised remuneration package had been agreed by the Executive Committee of the ESF on 25 October 2005, which resulted in a reduction of \$68.9 million, or 9.2%, to the teachers' remuneration package; and
 - (b) new contracts offering the revised remuneration package were issued on 30 November 2005 to 335 teachers whose contracts were due to expire on 31 August 2006. As of 20 January 2006, 292 teachers accepted the new contracts and a total of 88 resigned. The turnover rate of 10.86% was only slightly in excess of that recorded at the same time last year, which was 10.18%. Details of the review on the remuneration and benefits for teaching staff are provided in the progress report attached to her letter; and

- as for other recommendations of the Committee, the ESF had updated the position in its latest action plan, which is at Enclosure 1 to the Chief Executive's letter of 20 January 2006. In addition, the ESF was considering disposal plans for its surplus staff quarters and a new system for reimbursement of entertainment expenses.

50. The Committee wishes to be kept informed of further development on the subject.

School administration of the English Schools Foundation

(Chapter 4 of Part VIII of P.A.C. Report No. 43)

51. The Committee was informed that the English Schools Foundation (ESF) had agreed in principle to the recommendations on adopting a bidding system for budget allocation and on establishing formal policies and control procedures, and would in this context produce guidelines on school development planning. It had also agreed in principle to the recommendations on salary increments and would follow up in accordance with the action plan. The ESF had taken further actions to fulfil its agreements. In response to the Committee's request, the **Chief Executive, ESF**, provided, at Enclosure 2 of her letter of 20 January 2006 in **Appendix 10**, the latest action plan in respect of the outstanding matters.

52. The Committee wishes to be kept informed of further development on the subject.

Grant of land at Discovery Bay and Yi Long Wan

(Chapter 5 of Part VIII of P.A.C. Report No. 43)

53. The Committee was informed that:

Site boundaries of Discovery Bay and Yi Long Wan development

- there were about 300 lots whose lot owners had not requested the setting out of lot boundaries prior to development. The Lands Department (Lands D) had carried out setting out work for those lots which had not been developed and had checked the building lines of those which had completed development. All the work had been completed in September 2005 as scheduled;
- the Director of Lands was examining practical measures to deter encroachment on government land, and to monitor and identify for rectification of such encroachments;

- the Director of Lands had completed the necessary survey work in May 2005. Regarding the land encroachment problem of the Yi Long Wan development, as the matter was complicated, the Lands D was still considering various options to resolve the problem; and
- the withholding of the Certificate of Compliance (C of C) was a useful and effective control measure to deter and deal with land encroachment which had occurred prior to completion of a development. Consultation on new procedures for the issue of withholding C of C was ongoing and the procedures would be introduced as soon as practicable.

54. The Committee wishes to be kept informed of the progress of the various courses of action taken by the Administration.

Consideration of the Director of Audit's Report tabled in the Legislative Council on 16 November 2005 As in previous years, the Committee did not consider it necessary to investigate in detail every observation contained in the Director of Audit's Report. The Committee has therefore only selected one chapter in the Director of Audit's Report No. 45 which, in its view, referred to more serious irregularities or shortcomings. It is the investigation of that chapter which constitutes the bulk of this Report. The Committee has also sought clarification from the Administration on some of the issues raised in the other three chapters of the Director of Audit's Report No. 45. The Administration's replies have been included in this Report.

2. **Meetings** The Committee held a total of 19 meetings and six public hearings in respect of the subjects covered in this Report. During the public hearings, the Committee heard evidence from a total of 17 witnesses, including one Director of Bureau and five Heads of Department. The names of the witnesses are listed in *Appendix 11* to this Report. A copy of the Chairman's introductory remarks at the first public hearing on 28 November 2005 is in *Appendix 12*.

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 Report, are set out in Chapters 1 to 4 of Part 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 have rendered to the Committee throughout its deliberations.

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 2005

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 2005.

A. Introduction

In January 2001, a site at Sai Wan Ho, Hong Kong (the Site), with an area of about 12,200 square metres (m²), was sold by tender to a developer (the Developer) at a premium of \$2,430 million for a residential development. The lease conditions of the Site required the Developer to provide, on a reimbursement basis, Government Accommodation comprising of a marine police operational area (MPOA) with a net operational floor area of not less than 1,500 m², and a public transport terminus (PTT) which included a public transport interchange and a cross boundary coach terminus.

2. The Audit Commission (Audit) carried out a review on the above residential development with focus on the following areas:

- pre-tender enquiries on gross floor area (GFA) calculation;
- development intensity of the Site;
- provision of Government Accommodation;
- site classification;
- granting of exemption areas; and
- granting of bonus areas.

3. The Committee held six public hearings on 28 November and 1, 8, 9, 13 and 19 December 2005 to receive evidence on the findings and observations of the Director of Audit's Report (the Audit Report).

4. At the beginning of the Committee's first public hearing on 28 November 2005, Hon Abraham SHEK Lai-him, a member of the Committee, declared that as he represented the Real Estate and Construction constituency, he would not ask questions at the public hearings.

B. Summoning Mr LEUNG Chin-man, former Director of Buildings, to attend before the Committee to give evidence

5. As Mr LEUNG Chin-man was the Building Authority during part of the period covered by the Audit Report, the Committee decided at the outset to invite him to appear before it to provide information and explanations. Mr LEUNG was therefore invited to attend the public hearing on 28 November 2005 at 2:30 pm. However, on the morning of 28 November 2005, Mr LEUNG informed the Committee that as he was in the course of

filing an application to the High Court for leave to apply for a Judicial Review on the Audit Report, he would not be able to attend the public hearing that afternoon.

6. Having considered, at a special meeting convened that morning, Mr LEUNG's reason for declining to attend the hearing, the Committee decided that he could not be excused from attendance. The Committee reaffirmed its practice to invite the relevant former post holders to appear personally before it to assist it in its consideration of that report. The Committee agreed that should Mr LEUNG fail to attend the hearing, the Committee would consider issuing a summons under the Legislative Council (Powers and Privileges) Ordinance to order his attendance before it to give evidence. Later that morning, the Committee noted that the Secretary for Housing, Planning and Lands had directed Mr LEUNG to attend the hearing.

7. Subsequently, Mr LEUNG attended the hearing as scheduled. However, he refused to answer questions put to him by the Committee on the ground that he had filed an application to the court for leave to apply for a Judicial Review on the Audit Report. He said that, having taken legal advice, he considered it inappropriate to answer questions at the hearing.

8. In view of Mr LEUNG's refusal to answer questions at the hearing on 28 November 2005, the Committee exercised its power under the Legislative Council (Powers and Privileges) Ordinance to summons Mr LEUNG to appear before it to give evidence and to examine him on oath. A summons was served on Mr LEUNG on 29 November 2005.

9. On 1 December 2005, Mr LEUNG attended the second public hearing as summonsed and answered members' questions under oath. He also gave evidence at the subsequent hearings held on 8, 9, 13 and 19 December 2005.

10. Mr LEUNG provided written submissions to the Committee on 8 and 31 December 2005, in *Appendices 13 and 14* respectively. As requested by the Committee, the Administration provided, on 12 December 2005, a written response (in *Appendix 15*) to Mr LEUNG's first written submission.

C. Pre-tender enquiries on GFA calculation

11. The Committee learned from paragraphs 2.4 and 2.5 of the Audit Report that, in late November 2000, before the close of tendering of the Site, a prospective tenderer (not the successful tenderer) sought clarification from the Lands Department (Lands D) on whether the Government Accommodation would be excluded from the GFA calculation.

After consulting the Buildings Department (BD), the Lands D informed the prospective tenderer that the lease conditions did not specify a maximum GFA, and the Director of Buildings had advised that, under Building (Planning) Regulation (B(P)R) 23(3)(a), the Government Accommodation “shall be included” in the GFA calculation. While the Lands D recorded enquiries from, and its answers to, prospective tenderers on its file, Audit could not find records showing that the Lands D had publicised them.

12. The Committee asked why the Lands D consulted the BD before replying to the prospective tenderer and whether it agreed with the BD’s reply. **Mr Patrick LAU Lai-chiu, Director of Lands**, explained that:

- although the Lands D was responsible for drafting the lease conditions, it had to consult the BD for its expert advice on such technical matters as whether the Government Accommodation should be included in the GFA calculation; and
- as the BD, the professional department for such matter, had advised that the Government Accommodation should be included in the GFA calculation, the Lands D accepted its advice and replied to the prospective tenderer accordingly.

13. The Committee noted that the Lands D’s Lands Administration Office Instruction of 22 March 1999 (which was effective at the time of the tendering of the Site) stated that the Lands D should, before the close of the land sale, publicise the answers/clarifications given to prospective tenderers on enquiries relating to a basic ambiguity in the lease conditions. As the information on whether the Government Accommodation should be included in the GFA calculation was an important piece of information which would affect the tenderers’ assessment of the value of the Site, the Committee queried why the Lands D had not publicised the enquiries and answers in this regard and whether this was unfair.

14. The **Director of Lands** replied that:

- whether a piece of information should be publicised depended on whether it related to a basic ambiguity in the lease conditions. As the lease conditions did not specify a maximum GFA for the Site or whether the Government Accommodation would be included in the GFA calculation, enquiries concerning the inclusion or exclusion of the Government Accommodation in the GFA calculation did not relate to a basic ambiguity in the lease conditions. Moreover, it was commonly known in the industry that the Government’s normal practice was to include Government Accommodation in the GFA calculation. Therefore, the Lands D staff concerned judged that it was not necessary to inform other prospective tenderers of his answer in this regard; and

- there were nine tender returns in this case. Apart from the two lowest bids, the tender price offered by the other tenderers did not differ much. This reflected that the tenderers understood whether the Government Accommodation would be included in the GFA calculation and there was no question of unfairness to the tenderers.

15. The Committee further asked whether the Lands D could define more clearly the meaning of “fundamental ambiguity”.

16. The **Director of Lands** said that the Lands D accepted Audit’s recommendation in this regard. Although it was not possible to draw up a definitive list of “fundamental ambiguity”, the Lands D would clarify its meaning as far as possible so as to give clearer guidelines to staff. The latest Lands Administration Office Instruction now specified that “fundamental ambiguity” would cover any uncertainty regarding the development parameters such as GFA, site coverage, building height, carparking requirement and provision of government/institution/community (GIC) facilities requirement.

D. Development intensity of the Site

17. According to paragraphs 3.8 to 3.12 of the Audit Report, in November 1998, the Metro Planning Committee of the Town Planning Board had been informed that the Site would be able to produce about 1,000 residential flats. According to the Planning Department (Plan D)’s calculation, this was equivalent to a maximum permissible domestic GFA of 85,720 m². However, in November 1999, in response to the Lands D’s enquiry about the drafting of the lease conditions, the Plan D recommended a minimum GFA of 80,000 m² for residential purposes to produce about 1,000 residential flats with an average size of 80 m². It now transpired that the actual development of the Site turned out to be a development of five 61 to 64-storey blocks of 2,020 residential units, with a total domestic GFA of 135,451 m².

18. Against the above background, the Committee asked why the Plan D had changed the maximum permissible domestic GFA of the Site to a minimum domestic GFA, thereby allowing the domestic GFA of the Site to increase significantly.

19. **Mr Bosco FUNG Chee-keung, Director of Planning**, responded that a notional scheme of a mixed residential/commercial/GIC development for the Site was worked out by the Plan D in 1998 based on various planning assumptions. At that time, the domestic GFA and the non-domestic GFA were estimated to be about 85,720 m² and 39,116 m² respectively. But these did not represent the maximum GFA. Later, before the land sale, the Lands D asked the Plan D whether a minimum residential GFA for the Site could be included in the lease conditions. Taking into consideration the Government’s policy at that

time to increase the housing supply, the Plan D recommended a minimum domestic GFA of 80,000 m² for the Site to produce about 1,000 residential flats.

20. As regards the difference between the planned population density of the Site as estimated in July 1998 and at present, the **Secretary for Housing, Planning and Lands** advised, in his letter of 7 December 2005 in *Appendix 16*, that:

- in 1998, based on the estimated domestic GFA of the notional scheme (85,720 m²) and an assumed average flat size (85 m²) with reference to an adjacent residential development (i.e. Les Saisons) then under construction, the number of flats estimated in the notional scheme was 1,008 units. Taking into account the then estimated average of 3.5 persons per occupied flat (PPOF), the estimated planned population of the Site was 3,528;
- the notional scheme was only to provide a rough estimate based on a set of planning assumptions. A developer had the flexibility to determine the appropriate mix of residential and commercial GFA and the mix of flat sizes to meet the market demand. In the Sai Wan Ho development, the Developer had chosen not to provide commercial floor space within the Site and the average flat size had also turned out to be smaller (67 m²). With the increase in total domestic GFA, the number of flats provided on the Site had increased to 2,020 units; and
- with the continuing trend of declining household size, the estimated average PPOF had decreased over the years. The latest planning estimate was 2.58 persons per occupied flat for the subject development, resulting in a population of about 5,212. There was an increase of 1,684 persons compared to the original estimate of 3,528 in 1998. If the Developer had decided to build fewer but larger flats with the same domestic GFA, the population in the development would have been less.

21. The Committee enquired whether the increase in the development intensity of the Site had affected the development of, and led to a decrease in the GFA permissible in, the other areas of the district. The **Director of Planning** responded that:

- the increase in the GFA of the Site had not led to a reduction of GFA in other areas of the district. It was the Plan D's existing practice to update the assessment on the provision of public facilities in individual districts on a periodic basis to tie in with the preparation and revision of district plans. If there were additional GFA or new planning considerations which arose from the actual development of a site, the Plan D would deal with them when revising the district plans. If particular shortfalls were identified, the Administration could address them through other developments, such as that of government land, in the district; and

- the increased intensity of the Site did not have much impact on the overall provision of facilities in the district.

22. The Committee further asked about the impact on the provision of community and educational facilities in the district brought about by the increase in population density of the Site. In his letter of 7 December 2005, the **Secretary for Housing, Planning and Lands** stated that:

- while there was an increase in population on the Site as compared to the original estimated population in the notional scheme, there was a gradual reduction in the overall population in the Quarry Bay district. The district had a population of 133,522 in 2001 and the latest estimated planned population for the district was 125,200 by 2016, the major reason being that there was a trend of declining household size;
- based on the Hong Kong Planning Standards and Guidelines (HKPSG), the planned provision of community and educational facilities should be adequate to meet the HKPSG requirements with the exception of secondary schools and some youth and elderly facilities; and
- in terms of the provision of secondary schools, the shortfall of secondary schools could be met by the provision in other adjoining districts, such as North Point, and this was in line with the HKPSG. As regards the youth and elderly facilities, a GIC site of about 2,000 m², located in the vicinity of the Site, had been reserved for the provision of community facilities to meet the district's demand. Moreover, as these facilities were small scale and premises-based, they could be accommodated within private commercial or commercial/residential buildings.

23. In response to the Committee question, the **Director of Planning** clarified that, although the increased intensity of the Site did not have much impact on the overall provision of facilities in the Quarry Bay district, it did affect the density, surrounding environment and building height of the Site. It also caused additional visual impact in view of its waterfront location. These had been pointed out by the representative of the Plan D at the Building Authority Conference (BAC) of 22 October 2001.

E. Granting of exemption areas

E.1 Inconsistency of the Director of Buildings' advice and the Building Authority's decision

Evidence obtained at the public hearing on 1 December 2005

24. According to paragraphs 6.2 to 6.21 of the Audit Report, in November 1999, when the draft Special Conditions of the lease of the Site was being prepared, the BD had advised the Lands D that the Government Accommodation (i.e. the PTT and the MPOA) should be included in the GFA calculation. However, the information had not been incorporated into the lease conditions. At the expanded BAC on 1 August 2001 to determine the application of the Authorised Person (AP) for the Developer for excluding the Government Accommodation from the GFA calculation, there were diverse views on the issue. After seeking legal advice, the Building Authority decided in October 2001 that the PTT should be excluded from the GFA calculation while the MPOA should be included.

25. Noting that the Building Authority, who was also the Director of Buildings, decided in October 2001 to exclude the PTT from the GFA calculation while the BD had advised in November 1999 that both the PTT and the MPOA should be included, the Committee asked why there was inconsistency in the BD's advice before the sale of the lot and the Building Authority's decision after the sale was completed.

26. **Mr LEUNG Chin-man** explained that:

- the lease for the sale of government land was a contract between the Government and a developer. The Building Authority should not favour either party that signed the lease;
- in exercising his discretionary powers conferred by the Buildings Ordinance, the Building Authority should take into account such relevant factors as merits of the case, public interest, special circumstances of the case, precedent cases, as well as internal or external guidelines available, etc.. The Building Authority should listen to as many opinions as possible before making a decision, but the final decision should not be made by a majority vote following such consultation. It should be made by the Building Authority alone. Otherwise, the Building Authority would be negligent of his duties;
- as the Director of Buildings, he was holding two positions. He was the head of the BD, an administrative department; and he was the Building Authority when exercising discretionary powers under B(P)R 23(3)(b). Before the lot was sold, the mechanism under B(P)R 23(3)(b) had not been triggered off. The BD staff advised the Lands D on the drafting of the lease in the capacity as the Director of Buildings. The advice was based on the information

available to the BD at that time. Under B(P)R 23(3)(a), the Government Accommodation should be included in the GFA calculation; and

- after the lot was sold, the Developer applied for exclusion of the Government Accommodation from the GFA calculation. The mechanism under B(P)R 23(3)(b) was triggered off and he was acting as the Building Authority when he considered the application. In examining a formal application with concrete details put before him, the Building Authority needed to consider the merits of the case afresh. When it was found after detailed verification that the advice given earlier by the BD was not entirely applicable, that advice should not be adhered to rigidly. On the contrary, the application should be considered according to the rules under the Buildings Ordinance. As a matter of fact, as the BD was an administrative department and was not dealing with an application for exemption when it gave its advice to the Lands D, the Building Authority's decision might or might not be consistent with the BD's advice.

27. In the light of Mr LEUNG's reply, the Committee asked:

- about the public interest that he had taken into account in considering the Developer's application; and
- whether, as a civil servant, he had considered that his decision might go against the public interest as it might reduce the revenue receivable by the Treasury, affect the fairness of the tendering exercise, and lead to inconsistency in the execution of the government policy.

28. **Mr LEUNG Chin-man** responded that:

- when he was the Building Authority, he was a law enforcer. He had to leave aside his identity as a civil servant holding the post of Director of Buildings. He should not consider the issue from a civil servant's perspective. The Building Authority should not favour the Government, which was one of the contracting parties, even though public revenue was involved;
- when considering the Developer's application, he had taken into account the Developer's obligation to provide the PTT under the lease. To exclude the PTT from the GFA calculation would not generate any additional benefit to the public. However, according to the legal advice of the Department of Justice (DoJ), the exercise of development control under the Buildings Ordinance was independent of the lease conditions. This meant that, in exercising his discretionary powers, the Building Authority should not consider the lease conditions. He had also made reference to some 20 past cases concerning the exclusion of PTT from the GFA calculation. In all

those cases, the lease required the provision of the PTT but the Building Authority's decisions were inconsistent. The PTT was included in the GFA calculation in some cases, but not so in other cases. This meant that whether or not the lease required the provision of a PTT did not have any relationship with the Building Authority's granting of exemption. Therefore, he decided that the lease conditions should be put aside and should not be considered;

- the research into the past cases also proved that the some BD staff's view that the PTT should be included in the GFA calculation according to past cases was not well grounded. In fact, the decisions in the past cases were inconsistent; and
- B(P)R 23(3)(b) did not require that there should be additional public interest before the Building Authority could disregard floor space from the GFA calculation. When deciding whether to exercise a discretion, the real test should be whether the PTT served the public interest and the answer was definitely "yes". Otherwise, the Government would not have required the provision of the PTT in the Site through the lease.

29. At the Committee's request, the Administration provided a copy of the memo dated 22 October 2001 from the DoJ to the Director of Buildings containing the legal advice referred to by Mr LEUNG.

30. On the question of public interest, the Committee referred to the minutes of the BAC held on 1 August 2001 (in *Appendix 17*) and 22 October 2001 (in *Appendix 18*). The Committee noted that the District Lands Office/Hong Kong East had said that the Lands D's assessment of the tender reserve price was on the basis that the Government Accommodation would be included in the GFA calculation. The District Planning Office/Hong Kong (DPO/HK) had said that if the PTT was to be excluded from the GFA calculation, the proposed building bulk/height would increase and cause additional visual impact in view of its waterfront location. As land premium and development intensity were matters of public interest, the Committee queried whether Mr LEUNG had taken these factors into account when considering the matter.

31. **Mr LEUNG Chin-man** responded that:

- the Building Authority made his determination on whether or not to exercise a discretion according to the law. In making his determination, the Building Authority should not consider the impact of his determination on government policies, land sale procedure or systems, and land premium. Otherwise, the Building Authority would be acting beyond his authority;

- although the DPO/HK had raised concerns about development intensity, there was no statutory town planning control over the GFA and the bulk of the development on the Site. If there was any planning intention to restrict the GFA or the building bulk, this should have been spelt out in the lease conditions before the lot was sold. There was also no restriction on the GFA in the relevant outline zoning plan (OZP). It was therefore not appropriate for the Building Authority to address the Plan D's concern after the lot had been sold; and
- as the then Building Authority, he had not taken the above into account when making his determination because they were irrelevant. Neither had he considered whether his determination would give an impression that it favoured one of the parties to the lease. As a law enforcer, what mattered was that he enforced the law fairly and impartially.

Evidence obtained at the public hearing on 8 December 2005 and thereafter

32. It appeared to the Committee that, according to Mr LEUNG, there was no limit to the discretionary powers that he possessed as the Building Authority. Although he was a civil servant, he could disregard the Government's interest. Despite the opposition of the Lands D and the Plan D at the BAC, he ignored their views. He also put aside development intensity, public revenue, visual impact, fairness of the tendering exercise, etc. which were normally considered as matters of public interest. The Committee queried whether, in deciding to approve the exemption of the PTT (with an area of 7,297 m²) from the GFA calculation of the Site, Mr LEUNG had adopted a too restrictive view on public interest, thereby inappropriately discounting other relevant factors.

33. **Mr LEUNG Chin-man** responded that:

- when he considered the Developer's application for exclusion of the Government Accommodation from the GFA calculation under the Buildings Ordinance, he was acting as the Building Authority, not a civil servant. There should always be a boundary in the consideration of public interest;
- the Building Authority was a law enforcement agent and he derived his power from the Buildings Ordinance. In exercising his statutory discretionary power, the Building Authority must exercise it fairly and in accordance with the prescribed limits of the Buildings Ordinance. He should not act in favour of either one of the contracting parties even though the Government was one of the contracting parties. If the other party was just an ordinary citizen, it would be extremely unfair to the latter if the Building Authority should act in favour of the Government merely because public money was involved. It was wrong to adopt an indiscriminate approach and conclude right away that, because public money was at stake, it was the public interest;

- in exercising his statutory discretion, the Building Authority could not go beyond this statutory perimeter to deal with matters falling outside the ambit of his power, such as land premium rights. As a matter of fact, land premium rights were handled by the Lands D, another administrative department. The Building Authority's function was to enforce the law while the Lands D's was to obtain revenue for the Government. They operated from different positions;
- the Plan D's concern over the visual impact also fell outside the ambit of the Building Authority's authority and so he should not consider it either. As pointed out at the BAC on 22 October 2001, the Plan D's concern was a matter that the Plan D should deal with under the lease conditions or prescribe under the OZP. The view at the meeting was that it was not appropriate to address, under the Buildings Ordinance, matters which should be dealt with by the Plan D; and
- lighting and ventilation were matters of public interest that should be dealt with by the BD under the Buildings Ordinance in the process of approving the plans.

34. In response to the Committee's questions on the distinction between the roles of the Building Authority and the Director of Buildings, **Mr LEUNG Chin-man** stated that:

- the roles the Building Authority and the Director of Buildings involved different responsibilities and powers and should therefore be strictly distinguished from each other;
- if the Building Authority determined a case in the capacity as the Director of Buildings, he would be acting as a civil servant. A civil servant had a duty to protect the interests of the Government as the vendor in a land lease (as it involved public funds) instead of processing the case in an impartial manner under the law. A civil servant had to obey the orders of his superior. But if the Building Authority made his determination purely in accordance with his superior's instructions, it would be tantamount to the Building Authority giving up his statutory discretionary power to his (i.e. the Director of Buildings') superior. This would mean that it was not the Building Authority who was making the determination; and
- the Building Authority should, however, listen to and take into account the views of his colleagues in the BD and other government departments. Those were for his reference only, and ultimately the Building Authority should act within the statutory perimeter of the Buildings Ordinance and make his determination accordingly.

E.2 Development control under the Buildings Ordinance was independent of lease conditions

Evidence obtained at the public hearing on 1 December 2005

35. Regarding Mr LEUNG's remarks that, according to the legal advice of the DoJ, he should not consider the lease conditions in exercising his discretionary powers, **Mr Raymond CHAN, Senior Assistant Law Officer (Civil Law), DoJ**, clarified that:

- the legal advice provided to the BD on 22 October 2001 pointed out that there were two controls of building development, i.e. control under the Buildings Ordinance and control under the lease conditions. These two controls operated independently and separately and were not mutually exclusive. The Building Authority's exercise of discretionary power should not be bound by the lease conditions. However, the legal advice did not mention that the lease conditions should not be considered; and
- according to the legal advice, the lease conditions were one of the relevant factors that should be taken into consideration. However, in the exercise of discretionary power under the Buildings Ordinance, the Building Authority should not be bound by the lease conditions.

Evidence obtained at the public hearings on 8 December 2005 and thereafter

36. It appeared to the Committee that there was a discrepancy between Mr LEUNG's and the DoJ's interpretation of the legal advice. In Mr LEUNG's opinion, the legal advice had suggested that the Building Authority should not consider the lease conditions when deciding on the Developer's application for exemption and he had subsequently made the decision on that basis. The Committee enquired:

- about Mr LEUNG's reason for seeking the legal advice in the first place; and
- whether he had sought clarification on the legal advice obtained or had only interpreted the advice by himself.

37. **Mr LEUNG Chin-man** responded that:

- it was a fact that the Developer was required to build the PTT according to the lease, no matter whether he approved the application for exemption or not. However, at the BAC of 1 August 2001, there were different views regarding whether this was a relevant factor for consideration in deciding on the application. He therefore asked for advice from the DoJ on this specific question. The reply given by the DoJ was that the control imposed by the Buildings Ordinance was independent of the lease conditions. Therefore, he considered that, in exercising his statutory discretion, the Building Authority

should not consider the fact that the requirement to build the PTT was already in the lease;

- the meaning of his statement, that the Building Authority should not “consider” the lease conditions, was that the Building Authority should not take the lease conditions per se as a relevant factor because they only defined the relationship of the contracting rights of the two contracting parties; they were not a key factor as suggested by Mr Raymond CHAN. This was the real difference between his and Mr CHAN’s views;
- as a matter of fact, he had made detailed reference to the lease conditions throughout the entire process with the aim of finding out if there were any facts that could turn out to be relevant factors. But whether such facts were relevant factors or not depended on the facts themselves and not because they originated from the lease conditions; and
- he had not invited the government counsel who gave the legal advice to explain the advice as it had already answered his question as to whether, in the exercise of discretionary power under B(P)R 23(3)(b), the lease conditions should be taken into consideration. He had a clear understanding of the meaning of “independent of the lease conditions”. As a matter of fact, the legal advice only provided a starting point and a basis for examining the case. The Building Authority still had to make a decision by himself, having regard to the merits of the case and the various relevant factors.

38. In response to the Committee’s question, **Mr LEUNG Chin-man** confirmed that “independent of the lease conditions” certainly did not mean that the lease conditions were to be ignored.

39. In reply to the Committee’s enquiry about the legal advice, **Mr CHEUNG Hau-wai, Director of Buildings**¹, and **Mr MO Kim-ming, Assistant Director/ New Buildings 1, BD**, who were present at the relevant BAC meetings, said that:

- when seeking the DoJ’s advice, the BD had provided the DoJ with the detailed background to the case, including the fact that the BD had advised the Lands D that the Government Accommodation should be included in the GFA calculation of the Site, and that the Lands D had informed some prospective tenderers of the same in response to their enquiries. Subsequent to the BD’s written request to the DoJ for legal advice, three meetings were held with the DoJ on 20 August 2001, 18 October 2001 and 19 October 2001.

¹ Mr CHEUNG Hau-wai succeeded Mr Marco WU Moon-hoi as the Director of Buildings on 9 December 2005.

The purpose of the meetings was to brief the DoJ on the background to the case and clarify with the DoJ the advice sought;

- before the BAC of 22 October 2001, the full text of the legal advice had been distributed to all the members and attendees of the meeting; and
- in their opinion, the legal advice had set out the legal principles on the application and interpretation of B(P)R 23(3)(b) as well as the factors for consideration in exercising the Building Authority's discretionary power. They had acted according to the legal principles.

40. In the light of Mr LEUNG's explanation of what he meant by saying that the Building Authority should not "consider" the lease conditions, the Committee asked the DoJ whether, in its view, there was any discrepancy between Mr LEUNG's and its interpretation of the legal advice. The **Senior Assistant Law Officer (Civil Law)** stated that:

- based on the evidence given by Mr LEUNG at the public hearing held on 1 December 2005, he had the impression that Mr LEUNG had formed the view that the Building Authority should not consider lease conditions as one of the relevant factors in exercising the discretionary power provided under B(P)R 23(3)(b). The DoJ disagreed with such a view. As pointed out in the legal advice of 22 October 2001, lease conditions were one of the relevant factors that should be taken into consideration. However, the Building Authority should not be bound by them in the exercise of discretionary power; and
- Mr LEUNG had subsequently confirmed that he did not consider that lease conditions should be ignored. Moreover, according to the minutes of the BAC held on 1 August 2001, the representative of the Lands D had explained the lease conditions to those present at the meeting and they had deliberated this point in detail. As such, he now had the impression that Mr LEUNG had taken the lease conditions into consideration when examining the matter.

41. The Committee further asked whether Mr LEUNG's view that the lease conditions were not a relevant factor was a reasonable conclusion drawn from the legal advice.

42. **Ms Grace CHAN Lai-yuk, Senior Government Counsel, DoJ**, responded that:

- she was specifically instructed by the BD to advise, inter alia, whether the lease conditions should be taken into consideration in the exercise of B(P)R 23(3)(b) discretionary power. Before she gave the legal advice, she had received a lot of documents from the BD, including the BAC minutes of

1 August 2001. Having read the documents, she formed a view that the Building Authority had taken lease conditions as one of the factors for consideration and lease conditions were in fact being considered. Hence, the focus of her advice was not whether the lease conditions were relevant or irrelevant consideration, but whether the Building Authority should be bound by the lease conditions after considering them;

- as stated in her memo of 22 October 2001, she concurred with the BD's response to the Developer's AP that the exercise of development control under the Buildings Ordinance was independent of the lease conditions in every case. It was undesirable that the Buildings Department should be compelled to follow the lease conditions in general. Her advice did not say, nor should it be understood as, that the Developer's obligation to construct the PTT should not be taken into consideration by the Building Authority; and
- after she had given the legal advice, she had not received any enquiry from the BD or other people regarding her advice. Nor did she have knowledge of the Building Authority's interpretation of her advice or the Building Authority's decision at that time. She did not know whether or not the Building Authority had misunderstood her advice.

43. As regards whether he had taken the lease conditions into consideration, **Mr LEUNG Chin-man** stated that:

- according to his understanding, a government land lease was like any private land sale contract. The duties and rights of the contracting parties were defined by the lease conditions. In exercising his statutory discretionary power, the Building Authority must not side with either of the contracting parties. He should not therefore consider the lease conditions as relevant or even key factors in order to protect the interests of the Government as one of the contracting parties. This was not equivalent to saying that the Building Authority did not need to make reference to the lease conditions. In fact, apart from the lease, the Building Authority should look at all the evidence, information and documents laid before him so as to aid the exercise of his discretionary power under the Buildings Ordinance. If he found some information or facts in the lease conditions, he should consider and decide whether or not those were relevant factors. Nonetheless, whether these facts were relevant or not had nothing to do with their source (i.e. the lease conditions in this case);
- as a matter of fact, he had referred to the lease condition requiring the construction of the PTT, i.e. according to the lease, whether he approved the application for exemption or not, the Developer still had to build the PTT. He had also considered the difficulty likely to be faced by the Lands D in charging additional premium as a result of the lack of a ceiling on the total

GFA to be developed under the lease. However, as the Building Authority could not lean in favour of the interests of the Government as one of the contracting parties, his conclusion was that this was an irrelevant factor; and

- in exercising his discretionary power, the Building Authority should look at the matter independently of the lease conditions themselves, i.e. there was no need to consider the contractual relationship as regards duties and rights between the two sides. Nonetheless, the Building Authority should consider whether any fact revealed by the lease conditions or any other document was a relevant factor in the exercise of his discretionary power.

44. Referring to the fact that under the lease conditions, the Developer had the obligation to construct the PTT regardless of whether or not it was exempted from the GFA calculation, the Committee queried why Mr LEUNG considered it justifiable to grant the exemption, which in effect gave the Developer additional GFA, giving cause for concern that he had leaned in favour of the interests of the Developer.

45. **Mr LEUNG Chin-man** responded that:

- under B(P)R 23(3)(b), the Building Authority had the discretionary power to disregard from GFA calculations any floor space that was constructed and intended to be used solely for private car spaces, refuse storage chambers or access facilities for telecommunications services, etc.. Even though all these facilities were required to be built under the lease, the Building Authority had invariably granted exemption in such cases in the past. This showed that the granting of exemption for these facilities was not because they would generate additional public interest but because they were regarded as beneficial to public interest;
- it was possible that the Building Authority had used the “additional public interest” test in processing applications for PTT exemption in some past cases, leading to an understanding within the BD (which, however, had not been conveyed to outsiders) that PTTs should not be exempted for GFA calculation. However, in the course of examining the present case, after detailed arguments amongst BD staff and according to the DoJ’s legal advice, the BAC arrived at the conclusion that the test of “additional public interest” was not appropriate. This standard was therefore not adopted in the present case. It would suffice as long as the Building Authority was satisfied that the provision of the PTT was in the public interest;
- there was another opinion that the test of public interest could be that, if the facility in question came within the scope of B(P)R 23(3)(b), the public interest test could be met if the facility did not go against public interest. He did not think that such an approach was appropriate. For example, some

developers sometimes applied for the provision of additional carparking spaces for commercial or letting purposes. These extra carparking spaces were merely commercial facilities. Although they caused no harm to public interest, they only satisfied and were confined to commercial interest and did not meet the above-mentioned positive test of public interest. Hence, exemption should not be granted; and

- based on the above, in exercising the discretionary power, the Building Authority should not use either the “additional public interest” test or the “not going against public interest” test, but should decide whether the facilities designated under B(P)R 23(3)(b) were beneficial to public interest. Obviously, in this case, the PTT provided the residents in the development as well as in the nearby district a public transport facility, bringing convenience to them. It was beneficial to public interest and should be granted exemption.

46. The Committee referred to Practice Note 23 (PN 23) on “Discretionary Approval – Factors for Consideration” issued by the BD in September 2000 (in *Appendix 19*) which listed out nine factors that the Building Authority should consider in exercising his discretion in approving or rejecting a submission. The factors included lease restrictions, views of other government departments, effect of the development on the adjoining sites and the district, and fairness. It appeared to the Committee that, in exercising his discretionary power to exclude the PTT from GFA calculation, the Building Authority had not considered these factors. The Committee asked whether this was the case.

47. **Mr LEUNG Chin-man** stated that:

- the guidelines set out in PN 23 were of a general nature. In exercising his discretion, the Building Authority had to determine each case on its merits; and
- he had duly respected the views of other departments. This was why their concerns, including those about lease restrictions, land premium and development intensity, were deliberated in detail at the BAC. However, after consideration, he concluded that their concerns should not be dealt with by the Building Authority as they fell outside the ambit of his power and hence were irrelevant. The bases for the Building Authority’s decision were recorded in detail in paragraph 5 of the BAC minutes of 22 October 2001.

48. The Committee pointed out that according to PN 23, all the nine factors should be taken into account in the exercise of discretionary powers by the Building Authority. The Committee queried why Mr LEUNG regarded them as irrelevant, particularly as PN 23 was issued at a time when he himself was the Building Authority.

49. In response to the Committee's enquiry, the **Senior Assistant Law Officer (Civil Law)** commented that as the nine factors were included in PN 23, they were relevant factors that the Building Authority should take into consideration. As to the importance of each relevant factor and the weight to be attached to each of them, they should be decided by Mr LEUNG as the Building Authority.

50. **Mr LEUNG Chin-man** stated that:

- in exercising discretionary powers, the Building Authority had to consider, which meant making reference to, all the facts and information before him. Then he had to decide by himself what were or were not relevant factors; and
- he had made reference to all the factors listed in PN 23. Although they were matters of public interest, the Building Authority could only deal with those that fell within the ambit of his power. For the reasons that he had explained above, after considering such factors as land premium, the Developer's obligation to build the PTT and visual impact, he attached zero weighting to them. The overriding factor that had influenced his decision was the positive test of public interest. By applying this test, he established that the provision of the PTT was in the public interest and hence should be granted exemption.

E.3 Fairness to tenderers

51. The Committee referred to the fact that the Building Authority's decision to exclude the PTT from the GFA calculation of the Site was contrary to the advice given by the BD, which had been relayed to some tenderers by the Lands D before the close of the land sale. As the Building Authority's decision had increased the value of the Site after the land sale, the Committee wondered whether the BD's advice and the Building Authority's decision had caused unfairness to other tenderers in the sale of the Site.

52. **Mr LEUNG Chin-man** responded that:

- in its reply to the Lands D in 1999 and November 2000, the BD clearly advised that the PTT would be counted for GFA calculation under B(P)R 23(3)(a), but did not mention that the Building Authority would include the PTT in the GFA calculation when exercising his discretion under B(P)R 23(3)(b). It was the belief of some BD staff that the BD's general practice was not to exempt PTTs from the calculation of GFA. However, in fact, in some past cases, PTTs had been exempted from the GFA calculation. Developers, therefore, did know that the Building Authority could exercise his discretion to exempt PTTs from the GFA calculation under B(P)R 23(3)(b);

- in the letter dated 28 November 2000 (in **Appendix 20**) from a developer to the Director of Lands before the bidding of the Site, enquiring about whether the PTT was exempted from the GFA calculation of the Site, it was clearly stated that “In a no. of other cases, the public transport interchange & coach terminus are often exempted from GFA calculation”. This clearly indicated that developers did understand that the Building Authority could use his discretion to approve exemption of PTTs under B(P)R 23(3)(b);
- it was a fact that the Lands D’s reply of 30 November 2000 (in **Appendix 21**) to that particular developer only mentioned that PTTs should be calculated for GFA under B(P)R 23(3)(a). It did not mention whether the Building Authority would grant exemption under B(P)R 23(3)(b). The letter also pointed out that the Conditions of Sale did not specify a maximum GFA. This implied that a successful bidder for the Site could make an application to the Building Authority afterwards to ask (under B(P)R 23(3)(b)) the Building Authority to exercise his discretion to approve an exemption. In fact, any successful tenderer could apply for exemption under B(P)R 23(3)(b). He understood that the Lands D had given the same verbal answer to other developers making similar enquiries; and
- based on the above, the BD had not misled other developers or potential bidders for the Site, causing unfairness to them.

53. The Committee noted that the prospective tenderer, after noting that there was no explicit statement on exemption of the Government Accommodation from the GFA calculation under the Land Grant Conditions and PTTs were often exempted from GFA calculation in a number of other cases, had sought confirmation that the Government Accommodation would be exempted from the GFA calculation of the Site. In response, the Lands D only informed the tenderer that the Conditions of Sale did not specify a maximum GFA and, as advised by the Director of Buildings, “the Government Accommodation shall be included in the GFA calculation, under (B(P)R) 23(3)(a)”. The reply did not mention the mechanism for GFA exemption under B(P)R 23(3)(b). The Committee asked:

- why the BD had omitted mentioning the mechanism under B(P)R 23(3)(b) when it advised the Lands D;
- whether the Lands D’s reply was misleading as it could be interpreted as that the PTT would be included in the GFA calculation; and
- whether the BD and the Lands D had been unfair to the tenderer who sought the confirmation as he might not have put forward the most competitive bid in the light of the reply.

54. **Mr LEUNG Chin-man** said that:

- the fact that the mechanism under B(P)R 23(3)(b) was not mentioned by the BD when it advised the Lands D was not an omission. Before B(P)R 23(3)(b) was triggered off, it was neither appropriate nor possible for the BD to speculate whether the Building Authority would approve or reject an application for exemption in future. According to his understanding, the BD had never done so. This was because the Building Authority would only make a decision after examining a formal application with concrete details put before him; and
- he believed that that tenderer was well aware of the mechanism under B(P)R 23(3)(b) as he had stated in his letter to the Director of Lands that there were precedent cases in which the PTTs were exempted from GFA calculation.

55. The **Director of Lands** said that:

- in its reply to the tenderer, the Lands D only reproduced the BD's response. It was not up to the Lands D to inform the tenderer that he could apply for GFA exemption under B(P)R 23(3)(b) because the exercise of discretion under the B(P)R was the Building Authority's statutory function. Nevertheless, he agreed that the tenderer, being an experienced developer in Hong Kong, should be very familiar with the provisions of B(P)R 23(3)(b);
- the Lands D's reply should not have prejudiced the interest of the tenderer. Although the tenderer had been informed that the PTT would be included in the GFA calculation, he still offered the second highest bid. It could therefore be inferred that the price offered by this tenderer, similar to that of the successful tenderer, had factored in the exclusion of the PTT. The tenderer had not been treated unfairly;
- as a matter of fact, the Lands D had all along objected to approving the Developer's application for PTT exemption. The Lands D's representative had reminded the BAC at 1 August 2001 that the Lands D had advised some prospective tenderers that the Government Accommodation should be included in the GFA calculation under B(P)R 23(3)(a). As it transpired, the Building Authority subsequently approved the exemption and the Lands D could only accept the decision; and
- PTT exemption was a matter dealt with under B(P)R 23(3)(b) and it was the Building Authority's statutory authority to make a decision on the matter. The Lands D could not challenge the decision through other administrative channels, such as by complaining to the Housing, Planning and Lands Bureau (HPLB).

56. The Committee asked about the Administration's comments on the handling of the Sai Wan Ho case and whether there was a need to amend the relevant legislation with a view to regulating the Building Authority's exercise of discretionary powers. **Mr Michael SUEN Ming-yeung, Secretary for Housing, Planning and Lands**, responded that:

- the Administration had drawn on the experience of past cases, including the present one, to improve its mechanism for dealing with land and property development. At the time when the issues surrounding the Sai Wan Ho case took place, it was not clear how they should be addressed. Since then, the Administration had considered the issues in detail, with a view to clarifying matters;
- on whether PTTs should be included in GFA calculation, the HPLB, the BD, the Lands D and the Plan D agreed, at a meeting in April 2005, that the planning intention under the town plan was that PTTs should be included in GFA calculation unless otherwise specified in the relevant town plan or any specific planning approval for a site. Where the planning intention was clear, the relevant requirements would be stipulated in the lease conditions. The Building Authority would have to follow the planning intention, as embodied in the OZP, in exercising his discretion in granting GFA exemption for PTT;
- the Buildings Ordinance provided for the exercise of discretionary powers by the Building Authority in processing building plan applications, having regard to relevant considerations including interest of the community. In so far as the exercise of the statutory duties and powers of the Building Authority under the Buildings Ordinance was concerned, the Buildings Ordinance did not confer on the Secretary for Housing, Planning and Lands the power to monitor and/or oversee the exercise of such duties and powers. Any person aggrieved by the Building Authority's decision in the exercise of discretionary power might appeal to the Appeal Tribunal in accordance with the Buildings Ordinance; and
- the crux of the present case was whether the Building Authority's discretionary powers had been exercised properly. To further look into the matter and to alleviate any public anxiety in this regard, the Administration had set up an independent committee of inquiry to examine how and under what circumstances the Building Authority exercised his discretionary powers in this particular development, and whether such powers were exercised properly. The committee of inquiry would also advise on how the concerned departments might in future perform their functions better in this area.

E.4 Financial implications

57. According to paragraph 6.25 of the Audit Report, the financial implications of excluding the PTT from the GFA calculation of the Site amounted to \$125 million. The Committee queried why Mr LEUNG had not taken the financial implications of the exemption into account when exercising his discretionary power.

58. **Mr LEUNG Chin-man** responded that:

- in selling land, the Government always aimed at obtaining the highest sale price through the control mechanism of the land lease, for the benefit of the Treasury;
- if there were clear limitations laid down in the lease (e.g. the PTT should be counted for GFA, or any additional GFA or bonus GFA that the successful bidder might subsequently obtain from the Building Authority under the Buildings Ordinance should be counted for GFA under the lease, or there was a ceiling on the maximum GFA to be built at the site), then the bidding price for the site would be relatively lower. If the lease did not clearly spell out limitations on these items, such an “open” lease would provide an opportunity for the successful bidder to apply to the Building Authority for bonus GFA or exemption of GFA under the Buildings Ordinance in future. This would make the bidders offer a relatively higher premium for the site;
- the Lands D would take into account the different circumstances of each site and set the most appropriate strategy to maximise the land premium. The land lease strategy in the present case was to adopt the “open” strategy. In making the terms of the land lease, the Lands D had anticipated the possibility of the Building Authority’s granting the exemption of the PTT for GFA calculation etc., as mentioned in paragraph 6.24 of the Audit Report. There was therefore no question of the Building Authority’s decisions resulting in any loss of land premium. Conversely, if the lease had clearly specified the relevant limitations, the premium offered by the bidders would be relatively lower; and
- in the light of the above, the statement in the Audit Report that the exemption of the PTT from the GFA calculation had a financial implication of \$125 million was hypothetical.

59. In response to the Committee’s enquiry, **Mr Benjamin TANG, Director of Audit**, said, at the public hearings and in his letter of 12 December 2005 (in *Appendix 22*), that the figure of \$125 million was an estimated amount, in money terms, of the GFA concerned, and was derived from the Lands D’s reserve price assessment made before the award of the tender, as mentioned in Note 28 of paragraph 6.25 of the Audit Report.

60. The **Director of Lands** clarified that:

- the main objective and function of the Conditions of Sale, or what was commonly known as the lease, were to ensure that the grantee would develop the site in accordance with the stipulated use and provide certain facilities, and to bind the grantee not to undertake activities and build facilities not permitted under the lease. The lease itself was neither a mechanism nor an instrument for seeking the maximum premium in a land sale; and
- contrary to Mr LEUNG's statement that the Lands D would formulate the most appropriate strategy to obtain the best land sale revenue taking into account the individual circumstances of each site, the process of formulating the land sale conditions by the Government did not involve a strategy. The Government would consider how to implement, through the land sale conditions, the prevailing planning intention embodied in the OZP in which a site was located. Within this established framework, the Lands D would try its best to realise the highest premium from the sale of a site. It was not up to the Lands D to take the initiative in determining whether the lease should be "open" or otherwise. The decision was based on planning intention.

61. According to paragraph 6.23 of the Audit Report, the lease conditions of the Site had not specified whether the Government Accommodation should be included in the GFA calculation. Prospective tenderers therefore could have doubts about this point. The Committee also noted that the lease conditions were silent on the site classification and the maximum GFA that could be allowed for the development of the Site. The Committee asked:

- given that the inclusion of the above information in the lease conditions would obviate the need for the Building Authority to exercise a discretion after the land sale, why such information had not been stipulated at the outset; and
- whether the tender price offered for the Site would have been higher if it had been clearly stated in the lease conditions that the Site was a Class C site and the PTT would be excluded from the GFA calculation.

62. The **Director of Lands** and **Mr John Corrigan, Deputy Director of Lands (General), Lands D**, responded that:

- the Lands D had not stipulated a maximum GFA clause in the lease conditions because there was no restrictions on the GFA in the OZP concerned;

- when a lease was silent on the maximum GFA, this meant that the landlord, i.e. the Government, was taking the view that the maximum GFA was not a matter for the land authority. It was a matter for the Building Authority under the Buildings Ordinance and the site should be built to a development intensity that could be achieved under the Buildings Ordinance. Moreover, the Building Authority had the discretion to make or change his decision as to whether government accommodation would be accountable under the Buildings Ordinance. In the circumstances, it was not appropriate for the Lands D to stipulate in the lease conditions what should or should not be counted for the GFA; and
- developers in Hong Kong were very experienced and knew clearly the provisions of B(P)R 23(3)(a) and 23(3)(b). They should have submitted their tenders based on their assessment of whether the Building Authority would grant exemption under B(P)R 23(3)(b). The reserve price of the Site assessed by the Lands D was only \$1,850 million, whereas the sale price was \$2,430 million. The difference of \$580 million was a reflection of the Developer's estimation of the amount of additional GFA that he might obtain under B(P)R 23(3)(b).

63. On the question of whether the silence of the lease conditions on the maximum GFA had any impact on the premium received from the sale of the site, the **Director of Lands** stated in his letter of 31 December 2005 (in *Appendix 23*), and the **Deputy Director of Lands (General)** said at the public hearings, that:

- any suggestion that there had been a loss of revenue was speculative. If the lease conditions had limited the GFA to that which could have been achieved under the First Schedule to the B(P)R with no PTT exemption and no bonus GFA, the sale price obtained for the lot would have been less than the \$2,430 million actually obtained. In those circumstances, the only way that further revenue could have been obtained would be for the following to have happened:
 - (a) the Developer would have applied for PTT exemption and bonus GFA. Since he would have to conclude a lease modification to enjoy any such exemption or bonuses if the Building Authority agreed to grant them (see (b) below), the time that this would take and the need to pay a premium would have been a considerable disincentive and he might well have decided not to pursue that;
 - (b) had he pursued that and applied to the Building Authority for exemption and bonuses, it was by no means certain that the Building Authority would have granted them, as the lease would have been quite different. The Building Authority might have rejected the application; and

(c) in the event that an application were made by the Developer and approved by the Building Authority, there would have been no certainty as to the subsequent application for lease modification being successfully completed. The Developer might have found the premium sought by the Lands D unacceptable;

- if the sale conditions had contained a restriction as to the GFA, the only way extra revenue could have been obtained above the reduced sale price that would have been paid, would have been for all three of the above hurdles to have been successfully crossed. Failure to cross any one of them would have resulted in less revenue than was actually collected;
- the Lands D took the view that where the planning intention was that development should not be less than what could be achieved under the Buildings Ordinance, it was better to obtain maximum value on the original sale by leaving the sale conditions silent as to the GFA rather than to limit the GFA and take a lower sum at that time in the hope that any potential for achieving a development with greater GFA and therefore greater value would be successfully pursued, and result in the payment of a premium on lease modification at some future date; and
- the fact that the Audit Report consistently used the phrase “where appropriate” on this issue was a clear acknowledgement that there were circumstances where it would not be appropriate to set a maximum GFA. Such circumstances arose in cases where the planning intention was, as at the subject site in Sai Wan Ho, that the lot should be developed up to the development intensity that could be attained under the Buildings Ordinance.

64. Noting the Lands D’s reply, the Committee enquired:

- whether the Administration had encouraged developers to look for ways to achieve greater GFA after purchasing a lot; and
- why the Lands D, the Plan D and the BD only minded their own business, as a result of which the Administration was unable to protect the interest of the public at large.

65. The **Secretary for Housing, Planning and Lands** responded that:

- B(P)R 23(3)(a) governed the areas to be included in GFA calculation and B(P)R 23(3)(b) provided for areas of certain types of use that might be disregarded in GFA calculation. Building heights, site coverage, plot ratio, etc. were also controlled under the B(P)R. These set the limits of the development intensity of a site which normally could not be exceeded.

However, in some circumstances, developers were given some flexibility in order to maximise the development potential of a site. This did not mean that there was no control of the maximum level of the GFA of a site;

- the three departments responsible for land and building development had different functions. The BD's primary concern was building safety while planning matters fell under the purview of the Plan D. The Conditions of Sale, as drawn up by the Lands D, aimed to ensure that planning intention was implemented; and
- the Administration was currently conducting a review on whether the maximum GFA of a site should be specified. It was a dilemma and the arguments for and against the arrangement were equally strong. If the maximum GFA of a site was clearly stated, no additional GFA would be allowed. This might discourage developers from putting forward innovative ideas for the development of a site which were beyond government officials' experience but in fact could benefit the public. The Administration would have to strike a fair balance having regard to all relevant considerations.

66. Regarding the mechanism for improving the communication and coordination among the BD, the Lands D and the Plan D, the **Secretary for Housing, Planning and Lands** advised in his letter of 7 December 2005 that:

- the HPLB recognised the importance of coordination and interface among the departments involved in the land and building development approval process. Mechanisms at various levels with different degree of involvement from the HPLB were in place for this purpose;
- the Task Force on Re-engineering the Development Process, set up in January 2002, was chaired by the Director of Buildings with participation of senior officials from the BD, the Lands D and the Plan D. It aimed to map out an implementation plan to streamline the process in obtaining planning, lands and building approvals; and
- the HPLB had set up the Working Group on Reviewing Property Development Approval Processes since October 2004. Its main function was to consider matters relating to the overall simplification and rationalisation of the property development approval procedures, particularly those requiring the HPLB's steer and coordination.

E.5 Appointment of external observers

67. According to paragraph 6.26 of the Audit Report, BAC members were usually government officials. It was unprecedented for the BD to invite two university professors to attend the expanded BAC on 1 August 2001 as observers. The BD did not have any file records on how the two observers were selected. There were also no written records indicating that the two observers were required to declare any conflict of interest at the BAC. In the circumstances, the Committee asked Mr LEUNG:

- about the reasons and criteria for selecting the observers;
- whether he had considered requiring the professors to declare their relationship with the Developer or the AP;
- whether he knew that Mr Alex LUI Chun-wan, one of the observers, had worked for an architectural firm before joining the university and the firm might have provided service to the Developer; and
- whether he had explained to the observers their role at the BAC.

68. **Mr LEUNG Chin-man** explained that:

- as the issues to be dealt with in the Sai Wai Ho case were very complicated, he considered that he should listen to the views of more people before making a decision. As such, apart from the two observers, all other BD staff who were responsible for approval of building plans and the representatives of relevant government departments were invited to the BAC on 1 August 2001 to give views on the issues. The purpose of inviting external observers to the BAC was to enhance the transparency of the BD's decision-making process and the BD's credibility. The two professors had been informed that their role as external observers was to tender to the Building Authority their impartial and independent views;
- on the procedure for appointing the observers, it was not true that the BD did not have any file records on how the two observers were selected. In fact, he had discussed the matter with Mr MO Kim-ming, Assistant Director/New Buildings 1 and there was such record in the BD (the relevant file minute dated 30 July 2001 from the Assistant Director/New Buildings 1 to the Director of Buildings was in **Appendix 24**). It was he himself who raised the idea of appointing external observers to sit in the BAC and suggested inviting Hon Patrick LAU Sau-shing. Mr Alex LUI Chun-wan was recommended by Mr MO. They were considered suitable because they were familiar with the legislation concerning building matters as well as the application and operation of the legislation. Moreover, they were not full-time architects and hence should be less likely to have worked for developers and have conflict of

interest. However, that was only his understanding and he had not investigated the professors' background nor consulted other government departments. He had no idea of Mr LUI's career history before he joined the university; and

- it was true that he had not asked the two professors to declare their interests at the BAC and this was not proper, although Mr LAU had taken the initiative to declare that he was the President of the Hong Kong Institute of Architects.

69. The **Director of Audit** clarified that, in response to Audit's enquiry, the BD informed Audit in writing that there was no record as to how the two observers were selected.

70. The **Assistant Director/New Buildings 1** confirmed that when Audit made the above enquiry, the BD could not find any file records concerning the appointment of the observers. However, very recently, the BD had found the file minute of 30 July 2001 recording the matter.

71. In response to the Committee's request, the **Secretary for Housing, Planning and Lands** provided, in his letter of 7 December 2005, the career history of Mr Alex LUI Chun-wan.

72. To better understand the role played by the external observers at the BAC, the Committee invited Hon Patrick LAU Sau-shing and Mr Alex LUI Chun-wan to the public hearing on 19 December 2005. The Committee asked Messrs LAU and LUI whether they had been briefed by the BD on their role at the BAC and the background to the case prior to attending the BAC. It also asked whether they had declared any conflict of interest at the BAC.

73. **Hon Patrick LAU Sau-shing** said that:

- at the BAC on 1 August 2001, he had declared that he was the President of the Hong Kong Institute of Architects. As he had no relationship with the Developer or the AP, he had not declared other interests;
- prior to the BAC, he had been informed that his role was to observe the proceedings of the BAC and to offer his professional opinion on particular issues where necessary. However, he had not been briefed on the background to the case. He understood that he had no voting right at the BAC;

- Mr LEUNG Chin-man had made clear to all participants at the beginning of the BAC held on 1 August 2001 that the role of the two observers were to tender to the Building Authority their impartial and independent views. The presence of the observers would enhance the transparency of the decision-making process and the credibility of the BD; and
- the BAC on 1 August 2001 had been convened to consider the determination of classification of the Site, the proposed exclusion of the PTT from the GFA calculation, and the request for bonus areas in return for dedicated areas. His main role was to ascertain whether the AP's proposals were in compliance with the Buildings Ordinance and met such other requirements as those relating to town planning and land issues. The presentation made by the AP was impressive. The AP also distributed to the meeting a "Study Report on PTT", which revealed that past applications for exclusion of PTTs from the GFA calculation had been given different treatment. Hence, the AP's proposal to exclude the PTT from the GFA calculation had to be further examined. After considering the arguments put forward by the AP on the site classification, he shared the majority view of the BAC members that the Site was a Class C site. He then left in the middle of the meeting.

74. **Mr Alex LUI Chun-wan** said at the hearing and in his letter of 28 December 2005, in *Appendix 25*, that:

- he had been a full-time university professor in architecture from 1998 to 2002. During his prior employment with Simon Kwan & Associates Ltd from 1988 to 1998, the company had been commissioned by Henderson Land Development Company Limited on three projects, but he had not been personally involved in the running of these projects. He had no relationship or personal interest with the Developer or the AP, therefore he had not made any declaration at the BAC. With the benefit of hindsight, he should have done so although he had no interest to declare;
- prior to attending the BAC on 1 August 2001, he had been briefed by the BD that as an external observer, he was expected to observe the proceedings of the BAC based on his knowledge and experience as a professional architect. As he was not a member of the BAC, he had no voting right. The views expressed by him would only be advisory in nature. It was entirely up to the Government whether to accept them or not;
- prior to the BAC, he had neither received any document on the background to the case nor any internal guidelines of the BD on how the Building Authority should deal with exclusion of PTTs from the GFA calculation. Given such limitation, what he could do at the BAC was to listen carefully to the arguments and facts presented by the AP and the Government, and then make his own analysis and judgment in an objective manner based on his

professional knowledge and the information received at the meeting. The status of the lessee, regardless of whether it was a member of the public or a developer, had not been a key factor for considering the proposals. His prime considerations had been:

- (a) whether the proposals were in compliance with the requirements of the Buildings Ordinance as well as those stipulated in the lease of the Site; and
 - (b) whether, in approving or disapproving the proposals, the Government had exercised its powers in a fair and reasonable manner and in accordance with the Buildings Ordinance and the lease conditions; and
- he understood that in response to the enquiries of some tenderers, the Lands D had advised them that the Government Accommodation should be included in the GFA calculation. However, it had not publicised the enquiries and answers to all prospective tenderers. The Lands D had confirmed at the BAC on 1 August 2001 that the Developer had not made such an enquiry and therefore had not been provided with this piece of information. In his opinion, the Lands D should have provided the same information, especially that which might affect the tenderers' assessment of the value of the Site, to all prospective tenderers in order to provide a level playing field for all of them. As the Lands D had failed to do so, some of the prospective tenderers might be confused on whether the PTT should be included in the GFA calculation, resulting in unfairness in the tendering process. In the circumstances, he considered that the Developer should be given the benefit of the doubt and that the proposed exclusion of the PTT from the GFA calculation should be accepted.

75. The Committee noted that the prospective tenderer who had received the Lands D's written confirmation that the Government Accommodation would be included in the GFA calculation had subsequently offered the second highest bid. It appeared to the Committee that that tenderer might have put forward an even more competitive bid if he had been informed that the PTT would be excluded from the GFA calculation. In other words, the Lands D's confirmation might have adversely affected that tenderer's chance of making a successful bid. Following this logic, the Committee could not understand why the Developer, who had not been affected by the Lands D's confirmation, should be given the benefit of the doubt. The Committee also questioned whether the giving of the benefit of the doubt to the successful tenderer would create unfairness to other unsuccessful tenderers who might have been affected by the Lands D's confirmation.

76. **Mr Alex LUI Chun-wan** explained that:

- the lease of the Site had not specified whether the PTT should be included in the GFA calculation, and there was no restriction on the maximum GFA. While it could be argued that the Developer should take steps to clarify whether the PTT should be included in the GFA calculation as it had already been aware of the different treatments accorded to the various projects in the past, it could also be argued that the Government should also take steps to clarify the position before the tendering process. As there had been clear inconsistency in the Building Authority's rulings on the granting of exemption areas in previous cases, prospective tenderers could have doubts as to whether the PTT should be included in or excluded from the GFA calculation;
- he understood that the Lands D had raised objection to the exemption of the PTT. If it was the Lands D's firm view that the PTT should be included in the GFA calculation, he was puzzled why it had not incorporated such requirement in the lease conditions. He also doubted why the Lands D, upon confirming to some of the prospective tenderers that the Government Accommodation should be included in the GFA calculation, had not publicised the information to other tenderers. It appeared to him that there might have been negligence on the part of the Lands D. If the Lands D had done either of the above during the tendering process, the question would not have arisen; and
- in his view, it should be the Government's responsibility to produce clear and precise lease conditions, so as to give the prospective tenderers a full picture before assessing the value of the Site and submitting their bids. Since the Government's failure to produce clear and precise lease conditions had created ambiguity and unfairness to the tenderers, it was therefore reasonable to give the successful tenderer the benefit of the doubt.

77. In response to the Committee's enquiry, **Mr Alex LUI Chun-wan** said that from his experience as an architect, fairness in the tendering process was of utmost importance. In the tendering process of architectural projects, all prospective tenderers would be provided with the same set of information to ensure fairness. However, as he had had no experience in the bidding of land, he could not say with certainty that there must have been omission on the part of the Lands D. The Lands D might have good reasons for not publicising the relevant information to all prospective tenderers in the Sai Wan Ho case.

78. The **Director of Lands** said that:

- there had been no question of negligence or omission on the part of the Lands D. The rationale for not specifying the maximum GFA in the lease of the Site had already been explained to the Committee; and
- given that the Lands D, in response to enquiries, had confirmed to some of the tenderers during the tendering stage that the Government Accommodation should be included in the GFA calculation, it would be unfair to those tenderers if the PTT was subsequently excluded from the GFA calculation after the land sale. He could not see the basis for giving the benefit of the doubt to the Developer but not the unsuccessful tenderers.

79. The Committee enquired whether Mr LUI, apart from the Lands D's objection to the exclusion of the PTT from the GFA calculation, had also heard other departments' opposing views over this issue at the BAC. In response, **Mr Alex LUI Chun-wan** said that:

- a representative of the BD had informed the BAC that no clear guidelines on how the Building Authority would deal with the exclusion of PTTs from the GFA calculation had been issued both internally and to the industry. In his view, it should be the Government's responsibility to produce clear guidelines for reference by the industry. As the absence of clear guidelines might have put the prospective tenderers in a disadvantageous position, it would therefore be fair to give the Developer the benefit of the doubt; and
- he considered that the concern raised by a representative of the Plan D about the increase in the development density of the Site was only an expression of view. In his opinion, if there had been any planning intention to further restrict the GFA or the building bulk/height, this should have been spelt out in the lease conditions. Hence, it should be up to the Building Authority to decide whether or not to grant the exemption.

80. Although there had been quite a number of opposing views expressed at the BAC on the exclusion of the PTT from the GFA calculation, it appeared to the Committee that Mr LUI had played a very special role at the BAC and that his views had undue influence over the Building Authority's decision.

81. In his submission of 31 December 2005 (in *Appendix 14*), **Mr LEUNG Chin-man** clarified that, if it was the Committee's suggestion that the Building Authority had made his decision under the great influence of Mr LUI's views, it was factually incorrect. Mr LUI's views had merely been for the reference of the Building Authority. They had never been the determining factor for the Building Authority's decision in the Sai Wan Ho case.

E.6 Attendance of government officials at the BAC

82. The Committee noted from paragraph 14 of the minutes of the BAC held on 1 August 2001 and paragraphs 6.10 to 6.13 of the Audit Report that the representatives of the Plan D and the Lands D had objected to excluding the PTT from the GFA calculation. The Chief Building Surveyor/Hong Kong East (CBS/HKE) of the BD also said that the BD's normal practice was to require the PTT to be counted for GFA. Only Mr Alex LUI Chun-wan opined that developers might be confused on whether the PTT should be included in the GFA calculation and the Developer should be given the benefit of the doubt. The Committee asked why Mr LEUNG only listened to one side of the argument and ignored the views of other government departments.

83. **Mr LEUNG Chin-man** responded that:

- he had not listened to Mr LUI's views only and ignored others. As recorded in the BAC minutes, having noted the split views amongst BAC members on the issue, he directed that legal advice should be sought on the application of B(P)R 23(3)(b) before making a decision on the matter. The issue was subsequently discussed at another BAC on 22 October 2001;
- at the BAC on 1 August 2001, the AP gave a presentation of the Developer's case and highlighted that there had been different categories of precedents on the treatment of PTTs for the purpose of GFA calculation. The BD had also conducted a research into past cases and had similar findings; and
- the Building Authority had the responsibility to make a decision on the matter, after listening to the views of different parties. He should not make a decision simply according to the views of the majority of members, even if there was a majority view. As recorded in the minutes of the BAC of 22 October 2001, "Having considered all the relevant factors, members advised and the Chairman **agreed** to exclude the PTT in this case from GFA calculation."

84. The Committee asked about the identity of the BAC members who advised the Building Authority on 22 October 2001 to exclude the PTT from the GFA calculation and whether there was any discrepancy between the views of the members and those of the Building Authority. The **Director of Buildings** said that at the BAC of 22 October 2001, all participants at the meeting had expressed their views. Having considered the arguments put forward and the legal advice, all participants, including he himself, considered that the PTT should not be included in the GFA calculation.

85. In his letter of 7 December 2005, the **Secretary for Housing, Planning and Lands** supplemented that:

- the BAC operated as follows: the subject Chief Building Surveyor (CBS) presented the case; the Chairman, members and attendees gave their views on the matter; and the Chairman, as the Building Authority, made a decision on the matter. Therefore, in the Sai Wan Ho case, members including Mr CHEUNG Hau-wai gave their own views on the matter, and the Chairman, as the Building Authority, decided on the matter after considering views from members and attendees. No members would suggest or propose to the Building Authority as to what his decision should be;
- the basis of Mr CHEUNG's view to exclude the PTT from the GFA calculation, as was that of the other members in this case, was the legal advice and the considerations as recorded respectively in paragraphs 2 and 5 of the minutes of the BAC held on 22 October 2001. In addition, it was also noted that although the PTT of developments in the recent five years had all been required to be included in GFA calculation, other cases since 1980 had been inconsistent, and the Chairman had directed at the BAC of 1 August 2001 that legal advice be sought to clarify the matter; and
- there was no discrepancy between the views given by members and the Chairman during the meeting. After hearing the views given by members as well as those of the attendees, the Chairman then made the decision to exclude the PTT from the GFA calculation.

86. The Committee noted that representatives of the Plan D, the Lands D, the Transport Department (TD), the Highways Department (HyD) and the Fire Services Department were members at the BAC on 1 August 2001. However, at the BAC on 22 October 2001, apart from the Plan D's representative who became an attendee, the representatives of the other government departments were not present. The Committee asked Mr LEUNG why he did not invite those government officials, who had objected to the exemption of the PTT, to the BAC of 22 October 2001 at which he decided on the matter.

87. **Mr LEUNG Chin-man** stated that:

- the BAC was chaired by the Director of Buildings and comprised the Deputy Director of Buildings, the Assistant Director/Support, the subject Assistant Director and another Assistant Director on rotation as members. Representatives of relevant government departments and the subject CBS of the BD attended as attendees. The BAC held on 1 August 2001 was a meeting with expanded membership to give advice to the Building Authority;

- as the diverse views expressed at the BAC of 1 August 2001 regarding whether the PTT should be exempted were very clear, what mattered at the BAC of 22 October 2001 was the legal advice. Thus, the BAC of 22 October 2001 was held as a regular meeting with attendance by regular members. The representative of the Plan D was therefore only an attendee at that meeting. In fact, whether or not the government officials were members or attendees, he would still listen to their views. At that time, it did not occur to him that such an arrangement would give cause for concern; and
- at the BAC of 22 October 2001, he assumed that the representative of the Lands D, like the representative of the Plan D, had been invited by the BAC secretary to the meeting but had declined to attend. He had not specifically requested the presence of a Lands D representative because that was a regular BAC meeting.

88. The Committee specifically asked why there was no representative from the Lands D at the BAC meeting of 22 October 2001 and if the Lands D's representative had been present, whether he would have been a member or an attendee. The **Secretary for Housing, Planning and Lands** informed the Committee, in his letter of 7 December 2005, that:

- the secretary to the BAC had conducted a search but could not identify any written records on the invitation of the Lands D to the BAC on 22 October 2001. The secretary at the time could not recall if the Lands D's representative had been invited or if the representative had declined the invitation in this particular case. In this regard, invitation of representatives of outside departments had been and was usually made by telephone calls followed by memo or email confirming the date and venue of the BAC;
- if a representative of the Lands D had been invited to the BAC meeting of 22 October 2001, he would have been in attendance and would not have been a member, similar to the Plan D representative; and
- the Lands D had checked its file records and there was no record to show that it had been invited to attend the BAC meeting held on 22 October 2001. All relevant officers responsible for handling of the case at the time had been contacted and had advised that they did not recall having received invitation in any form from the BD to attend that meeting.

89. Given that the decision to exclude the PTT from the GFA calculation was made by the Building Authority at the BAC of 22 October 2001 in the absence of those government officials who had expressed objection at the BAC of 1 August 2001, the Committee wondered whether Mr LEUNG had tried to exclude opposition from the October meeting.

90. **Mr LEUNG Chin-man** responded that as the Building Authority, he had to make a judgement after considering all the different opinions. As there were already detailed deliberations of the issue at the BAC of 1 August 2001, he should make a decision on 22 October 2001 after listening to the legal advice. The Building Authority did not make a decision based on the majority view. There was no need to exclude those whose views were different from his own.

91. The Committee noted that at the BAC on 1 August 2001, Mr H K TANG was the CBS/HKE. At that meeting, Mr TANG had offered the view that it was the BD's normal practice to require PTTs to be included in the GFA calculation. However, at the BAC on 22 October 2001, Mr TANG was not present and Mr K P CHOW was the CBS/HKE. The Committee asked whether Mr TANG was excluded from the latter meeting because he had held a different opinion.

92. The **Assistant Director/New Buildings 1** explained that the change arose from the BD's internal staff redeployment. Mr TANG was the CBS/HKE from May 1998 to September 2001. In September 2001, Mr CHOW was due to be transferred back to the BD after working in the HPLB. As Mr TANG had been the CBS/HKE for more than three years, it was the appropriate time for him to take up another area of work. Also, there was another BD staff who was due for posting at that time. Therefore, Mr TANG was transferred to the Office of the Licensing Authority of the Home Affairs Department whereas Mr CHOW succeeded him as the CBS/HKE.

93. The Committee asked whether the Administration would consider regulating the attendance of government officials at the BAC, with a view to ensuring that its membership would be consistent and would match its functions and terms of reference.

94. The **Secretary for Housing, Planning and Lands** responded that the arrangement for the BAC of 1 August 2001 was special. So far, there had not been any request for changing the BAC's mode of operation. However, as problems had been revealed, the Administration would review the matter.

E.7 Precedent cases concerning the exemption of PTTs from GFA calculation

95. As Mr LEUNG said that he had made reference to past cases concerning the exclusion of PTT from GFA calculation and found that the decisions were inconsistent, the Committee asked about the details of the precedent cases the situation of which was comparable to the present case and which had been approved or rejected by the Building Authority, the basis for the Building Authority's decision, as well as the official who made the decision.

96. In his letters of 16 December 2005 (in **Appendix 26**) and 31 December 2005 (in **Appendix 27**), the **Director of Buildings** provided details of four precedent cases, which were summarised in the table below. He also informed the Committee that the BD had taken the situation comparable to the Sai Wan Ho Site as follows:

- the lease conditions required the construction of a PTT in the development;
- the lease conditions did not specify whether the PTT should or should not be included in GFA calculation; and
- the relevant OZP did not specify whether the PTT should be included in GFA calculation.

**The four precedent cases
the situation of which was comparable to the Sai Wan Ho site**

A. Cases for which the Building Authority <u>approved</u> the exclusion of PTT from the GFA calculation			
	Location of the PTT	Year of Occupation Permit issued and method of disposal	Reasons for GFA exclusion and details of the decision-making process ^{Note (1)}
1.	United Centre, Admiralty ^{Note (2)}	1981, By auction	<p><u>Reasons for excluding the PTT from the GFA calculation</u></p> <p>The Public Works Department (PWD) Conference in 1978 was of the view that the PTT was similar to MTR station entrances etc. of which bonus plot ratio was usually granted. The PWD Conference agreed that bonus plot ratio should be granted for the surrender of the PTT to be completed on the lot in order to make the sale of land more attractive and hence increase the chance of getting the PTT.</p> <p><u>The official who made the decision</u></p> <p>The decision to exclude the PTT from the GFA calculation was made by the then Director of Public Works, who was the Building Authority.</p>
2.	China Hong Kong City, Tsimshatsui	1988, By tender	<p><u>Reasons for excluding the PTT from the GFA calculation</u></p> <p>The CBS was of the view that the PTT could be discounted from GFA calculation under the then B(P)R 23(3), i.e. the existing B(P)R 23(3)(b), which provided that floor space constructed or intended to be used solely for the parking, or for the loading or unloading of motor vehicles might be excluded from GFA calculation.</p>

Development of a site at Sai Wan Ho

			<p><u>The official who made the decision</u></p> <p>The decision to exclude the PTT from the GFA calculation was made by the CBS as Head of the Kowloon Section.</p>
3.	Scout Association, Austin Road, Tsimshatsui	1993, By private treaty grant	<p><u>Reasons for excluding the PTT from the GFA calculation</u></p> <p>It was considered that the PTT was a facility required by the Government.</p> <p><u>The official who made the decision</u></p> <p>The decision to exclude the PTT from the GFA calculation was made by the Chairman of the Building Committee, who was the then Principal Government Building Surveyor (PGBS).</p>
<i>B. Cases for which the Building Authority <u>did not approve</u> the exclusion of PTT from the GFA calculation</i>			
	Development	Year of Occupation Permit issued and method of disposal	Reasons for GFA inclusion and details of the decision-making process ^{Note (1)}
4.	Cheung Sha Wan Plaza	1989, By tender	<p><u>Reasons for not approving the exclusion of the PTT from the GFA calculation</u></p> <p>The Building Committee was of the view that the PTT was not a use ancillary to the main office/shop use of the development.</p> <p><u>The official who made the decision</u></p> <p>The decision not to approve the exclusion of the PTT from the GFA calculation was made by the Chairman of the Building Committee, who was the then PGBS.</p>

Note

- (1) CBSs and the Principal Government Building Surveyor (PGBS) were authorised among other officers by the Building Authority to carry out the duties and exercise the powers under the Buildings Ordinance, including the approval of building plans and the exclusion/inclusion of the PTT from the GFA calculation under B(P)R 23(3). In case of doubt or where complicated issues or appeals were involved, the CBS concerned would refer the case to the Building Committee, the BAC, or the Building Authority personally to seek a decision.
- (2) This case was different from the other three cases and the Sai Wan Ho case in that its lease conditions had specified that the maximum plot ratio should not exceed 18 and that bonus GFA of an amount not exceeding five times of the area of the PTT would be granted.

97. The Committee further asked whether, in any of the above three cases for which the Building Authority approved the exclusion of the PTT from GFA calculation:

- the building bulk and/or building height had increased due to the exclusion of the PTT from the GFA calculation, and whether the developer was required to pay a premium to the Government as a result; and
- there were any prospective tenderers who were informed during tendering of the site concerned that the PTT would be included in the GFA calculation, as in the case of the Sai Wan Ho Site; if so, what the details were and whether the answers given to the prospective tenderers had been publicised.

98. In his letter of 31 December 2005, the **Director of Lands** advised that:

- the bulk and/or height of a building with a PTT exempted from GFA calculation would inevitably be greater than if the PTT were not exempted, provided the developer was able to enjoy the exemption as he was in the subject cases. The developer/grantee was not required to pay a premium to the Government as a result of the reasons stated below:
 - (a) for the PTT at the United Centre, the lease allowed for possible exemption of the PTT from the GFA calculation as it specified that “the maximum plot ratio (as defined in B(P)R 21(3)) of any building erected or to be erected on the lot shall not exceed 18”;
 - (b) for the PTT at China Hong Kong City, the lease did not contain a maximum GFA clause and therefore possible exemption of the PTT from the GFA calculation was acceptable under the lease; and
 - (c) for the PTT at the Scout Association, the lease did not contain a maximum GFA clause and therefore possible exemption of the PTT from the GFA calculation was acceptable under the lease. In any case, the grantee was a non-profit-making organisation and the lot was granted to it by private treaty grant at nominal premium; and
- for items (a) and (b), there was no enquiry from any prospective tenderers as to whether the PTT would be included in the GFA calculation. For item (c), the question did not arise as the lot was granted by way of private treaty grant.

E.8 Submission of building plans by the AP

99. According to paragraph 6.15 of the Audit Report, on 1 August 2001, the BD received the AP’s letter dated 1 August 2001 withdrawing the building plans submitting on 3 July 2001. On 2 August 2001, the AP resubmitted the same building plans, with the

Government Accommodation included in the GFA calculation. It appeared to the Committee that the AP had accepted the inclusion of the Government Accommodation in the GFA calculation. The Committee wondered why the Building Authority still held a BAC on 22 October 2001 to consider whether the PTT could be excluded from the GFA calculation.

100. **Mr LEUNG Chin-man** said that the AP had submitted amendment plans on 22 September 2001 with the PTT excluded from the GFA calculation. The **Assistant Director/New Buildings 1** added that this was a normal procedure. Under the Buildings Ordinance, after an applicant had submitted building plans for the BD's consideration, the BD had to approve or disapprove them by the statutory due date. The AP's purpose of withdrawing the building plans submitted on 3 July 2001 and then resubmitting the same building plans, with the Government Accommodation included in the GFA calculation, on 2 August 2001 was to extend the statutory due date.

101. The Committee asked why the AP submitted building plans based on different treatments of the Government Accommodation in the GFA calculation within a short period of time.

102. In response, the **Secretary for Housing, Planning and Lands** provided a summary of the events relating to the submission history of building plans from 4 July 2001 to 23 October 2001 by the AP in Annex E of his letter of 7 December 2005. He stated in the same letter, and the **Assistant Director/New Buildings 1** supplemented at the public hearing on 8 December 2005, that:

- the AP was at liberty to submit different schemes of building proposal for the BD's consideration at any time he thought fit. Since the BAC of 1 August 2001 deferred making a decision on the treatment of the PTT, Submission A with the PTT excluded from the GFA calculation should have been disapproved by the statutory due date. However, on 3 August 2001, the BD received the AP's letter dated 1 August 2001 withdrawing Submission A and resubmitting Submission B which was identical with Submission A so that, in effect, the due date could be extended. The AP subsequently amended Submission B by including the PTT in the GFA calculation. The amendment of plans was a normal practice which did not affect the status of Submission B; and
- the AP was aware that the BAC of 1 August 2001 had not decided on the question of exclusion of the PTT from the GFA calculation. Thereafter, the BD received Submission C on 24 September 2001 and supplementary information on 26 September 2001 which were the initiative of the AP to pursue the outstanding issue of the PTT that had arisen from the BAC of 1 August 2001.

F. Provision of Government Accommodation and granting of bonus areas

103. According to paragraphs 4.4 to 4.24 of the Audit Report, in November 1998, during the planning of the MPOA, the Architectural Services Department (ArchSD) assessed that the approximate area for the 71 parking bays of the MPOA was 3,200 m². The departments concerned considered that the ArchSD's assessment was excessive. In late November 1998, the Hong Kong Police Force (HKPF) had accepted the proposed layout of the MPOA with 1,500 m² of space. The ArchSD also confirmed that the expected project requirements were achievable. However, after the sale of the Site, the AP claimed that extra space was required to meet the MPOA requirements specified in the Technical Schedule, and that the PTT had to be extended to "encroach" on areas designated on the Control Drawing as "Proposed Space Reserved for Entrance Lobbies and Other Facilities to Upper Floor" (the Reserved Areas).

104. In view of the need to extend the PTT into the Reserved Areas, in July 2001, the AP asked for bonus areas in return for the dedication of part of the Reserved Areas for public use. On 1 August 2001, the Building Authority agreed to grant bonus areas to the Developer in return for the dedication of part of the Reserved Areas for PTT use. Although the relevant departments considered that the amendments of the layout and the alleged extension into the Reserved Areas had stemmed from the AP's own design, the ArchSD said that there were no grounds to reject the AP's proposal because, among other things, the Control Drawing attached to the lease conditions was "for information only" and was "not to scale".

105. Against the above background, the Committee enquired whether the ArchSD had been mistaken in advising that 1,500 m² was adequate for the MPOA and that the expected project requirements were achievable.

106. **Mr YUE Chi-hang, Director of Architectural Services**, responded that originally, the ArchSD assessed that an area of 3,200 m² was required for accommodating the 71 parking bays required by the HKPF. However, having regard to the views of the other departments concerned, the ArchSD pointed out that an area of 1,500 m² would be adequate provided that it was net operational floor area (NOFA) and that flexibility in achieving the HKPF's accommodation be built in the Technical Schedule by allowing vehicle stacking and the partial provision of parking bays, subject to the HKPF's acceptance. Based on these considerations, the ArchSD advised the Lands D to include an area of 1,500 m² in the Technical Schedule of the MPOA.

107. The Committee further asked why the Control Drawing attached to the lease conditions was "for information only" and was "not to scale". The **Director of Architectural Services** said that according to the ArchSD's assessment, the area of 1,500 m² could accommodate the 71 parking bays. However, it was considered that the

Developer should be given the flexibility to design how to accommodate the parking bays. The line shown on the Control Drawing should not be taken as a rigid boundary for the MPOA. The ArchSD agreed with the Lands D that it would be more appropriate if the Control Drawing was not drawn to scale.

108. The **Director of Lands** and **Mr Gary CHEUNG Yiu-king, District Lands Officer (District Lands Office, Hong Kong East), Lands D**, supplemented that:

- the lease conditions did not restrict the NOFA of the MPOA to 1,500 m². In fact, the lease conditions only specified a minimum NOFA of 1,500 m², which meant that the Developer was allowed to build a larger MPOA. The purpose of the Control Drawing was to provide a reference for the Developer. If the Developer considered that an area bigger than 1,500 m² was required from a technical point of view, the Lands D was prepared to consider his proposal; and
- in January 2003, both the ArchSD and the TD confirmed to the Lands D that the new layout of the Control Drawing was acceptable. The ArchSD had also acknowledged that strict adherence to the scheme according to the Control Drawing was not possible. As such, the Lands D considered that there were no grounds to reject the Developer's proposal. Moreover, the Developer was willing to amend the Control Drawing and pay a premium. Therefore, the Lands D agreed to amend the Control Drawing and allow the Developer to build a larger MPOA and PTT in return for a premium of \$6 million.

109. In the light of the Lands D's reply, the Committee asked:

- about the basis for approving the revised layout of the Control Drawings;
- how the figure of \$6 million was arrived at and whether there were any precedent cases in which the premium was calculated in the same way; and
- the reason why the premium was not calculated according to value of the bonus areas of 10,700 m² granted to the Developer based on the sale price of the Site.

110. The **Director of Lands** explained, at the public hearings and in his letter of 15 December 2005 in (*Appendix 28*), that:

- after consulting the relevant government departments, i.e. the ArchSD, the HyD, the TD and the HKPF, the Lands D considered the revised layout of the Control Drawing acceptable and approved it;

- the premium of \$6 million was arrived at by assessing the current value of the lot with (“after” value) and without (“before” value) the benefit of the consent to amend the Control Drawing to reflect the encroachment of the PTT into the Reserved Areas. The “After Value” was valued at \$2,708.4 million and the “Before Value” was valued at \$2,702.43 million. The premium was thus \$5.97 million. As an offer of \$6 million had been made by the Developer, it was accepted;
- the Lands D was not aware of any precedent cases involving payment of fees for consent to amend a control drawing attached to the Conditions of Sale. The basis for the assessment, i.e. the difference between the current values of the lot with and without the benefit of the consent, accorded with the basis for calculating premium for lease modifications; and
- the premium was not calculated according to the value of the floor area involved based on the sale price of the Site because the established principle in calculating premium for lease modification was to assess the increase in current values.

111. The Committee further asked the Lands D, when assessing the “After Value” of the lot, whether the value was assumed to have increased or decreased as compared to 2001 when the Site was sold, and the percentage of the change.

112. In his letter of 31 December 2005, the **Director of Lands** advised that:

- when assessing the “After Value” of the lot (in the \$5.97 million premium assessment), whether the value of the lot had increased or decreased after its sale in 2001 was not a relevant factor for consideration. The only matter for consideration was the increase in the then current (i.e. 2003) value attributable to the consent to amend the Control Drawing. The value of the lot increased because of the certainty of the exemption of the PTT and the availability of bonus GFA having been established by 2003; and
- as a matter of fact, land values generally declined between the time of sale of the lot in January 2001 and the time of assessment of premium for consent to amend the Control Drawing in January 2003. As regards percentages, the increase in value from \$2,430 million to \$2,708.4 million was an 11% increase.

113. As requested by the Committee, the **Director of Lands** provided, in his letter of 31 December 2005, the Site Valuation Framework adopted in arriving at the premium of \$5.97 million.

114. In response to the Committee's question as to why the Lands D had not pursued the options of vehicle stacking or reduction in parking bays, the **Deputy Director of Lands (General)** and the **District Lands Officer (District Lands Office, Hong Kong East)** explained that:

- the Lands D had not pursued the options because, as stated in paragraph 4.19 of the Audit Report, the ArchSD had informed the Lands D that there were no valid grounds to reject the AP's proposal. Therefore, the question of putting alternatives to the AP did not arise; and
- under the circumstances, the Lands D negotiated with the Developer on the revision of the layout of the Control Drawings for which a premium could be charged.

115. The Committee queried whether, in approving the NOFA of 2,028 m² for the MPOA proposed by the Developer, the Lands D had considered the financial implication as the Developer was eventually granted bonus areas because of the enlargement of the MPOA.

116. The **Deputy Director of Lands (General)** responded that:

- the Lands D accepted that the enlargement of the MPOA meant that the PTT had to be shifted into the Reserved Areas, but the Lands D was not responsible for any question of dedication. The lease conditions were silent as to the maximum GFA. The planning intention was that the lot be developed according to the Buildings Ordinance. The bonus areas were granted by the Building Authority in accordance with the B(P)R and were not a matter for the Lands D; and
- as far as the Lands D was concerned, the Developer's proposal had a financial implication in that in giving consent for the Developer to amend the Control Drawing, the Lands D was in a position to charge a fee, which it did.

117. In view of the Lands D's reply, the Committee asked whether the BD had considered:

- the necessity of the extra space of 528 m² (2,028 m² - 1,500 m²) for the MPOA proposed by the Developer and whether it had consulted the HKPF; and
- requesting the Developer to adhere to the 1,500 m² provided for in the original Control Drawing, so as to protect government revenue.

118. The **Director of Buildings** stated that a BAC was convened on 1 August 2001 to consider the Developer's application for bonus areas. The then Building Authority considered that the redesigned PTT, with a larger area, was an improvement on the original design and the provision of landscaped areas, which resulted in the repositioning of the public footpaths within the PTT, should be encouraged. There was also the view that the enlarged MPOA would better serve its purpose. Hence, the BAC approved the granting of five times bonus plot ratio to the Developer.

119. The **Secretary for Housing, Planning and Lands** and the **Director of Lands** added that:

- the extension of the MPOA by 528 m² did not have a direct relationship with the extension of the PTT into the Reserved Areas. It was not necessary for the PTT to be so big as to encroach on the Reserved Areas, although there was a view that it would be better if the PTT was bigger;
- regarding the need for the PTT to be extended, the ArchSD, the TD and the HyD considered that the Government Accommodation could be constructed in accordance with the Control Drawings and the Technical Schedules. They also said that the amendments of the layout and the alleged extension into the Reserved Areas stemmed from the AP's own design, not from the lease requirements; and
- the relevant government departments had been consulted on the extended MPOA. Both the ArchSD and the TD confirmed that the new layout of the Control Drawing was acceptable and the HKPF had said that it relied on the ArchSD's advice on technical issues.

120. **Mr LEUNG Chin-man** said that:

- at the BAC of 1 August 2001, he had consulted the relevant government departments on the desirability of a larger PTT. The representative of the TD stated that the proposed PTT, with a larger area, would function better than the original one. The Plan D's representative also considered that the proposed PTT was an improvement on the original design in terms of operation and environmentally friendly design. The two departments' views matched his advocacy that the design of public facilities should be as environmentally friendly as possible;
- in view of the above, he approved the granting of bonus areas subject to the Developer undertaking not to seek any further compensation from the Government, and the layout of the PTT being acceptable to all relevant government departments. On 11 August 2001, the BD sent the minutes of the BAC to the departments concerned and no departments responded as to

whether they agreed or objected to the layout of the PTT. A letter was then sent to the Developer conveying the Building Authority's approval of the granting of bonus areas. As it transpired, in February 2002, the Lands D informed the BD that the proposed dedication of the Reserved Areas was neither required nor necessary and it objected to the granting of bonus areas to the Developer;

- another BAC was convened on 23 April 2002 (a copy of the minutes is in *Appendix 29*) to discuss the matter. At the meeting, it was agreed that while it would be a matter for the Lands D to decide whether the Developer would be entitled to any compensation under the lease, it would be another matter for the Building Authority to decide whether he would give any concessions in the form of bonus areas under the Buildings Ordinance. It was also confirmed that the layout of the proposed PTT was technically acceptable to all departments concerned, and the proposed provision of landscaped areas and a larger PTT area would benefit the public; and
- although the relevant government departments had confirmed that the PTT could be constructed according to the Control Drawings and the Technical Schedules, this was not a matter to be dealt with by the Building Authority. What mattered was whether the bigger PTT proposed by the Developer merited support from the operational and environmental point of view. In view of the merits of the Developer's proposal and the relevant departments' agreement, he upheld the decision made on 1 August 2001.

121. In response to the Committee's enquiry, the **Director of Lands** said that it was the Lands D's view that the proposed dedication of the Reserved Areas was neither required nor necessary. However, the Lands D was only responsible for the grant of land and was not the professional department for deciding the appropriate size of a PTT. It only relayed to the Building Authority the opinion of the ArchSD, the TD and the HyD that the PTT could be constructed according to the Control Drawings and the Technical Schedules. Notwithstanding this, the departments also considered that a bigger PTT was a good design and saw no reason to reject it.

122. The Committee further asked the Lands D whether the government departments concerned had evaluated the financial implications when considering the Developer's request for bonus areas. The **Director of Lands** replied that there were no records in the Lands D which showed that the departments concerned had considered the question of land premium.

123. The Committee noted from paragraphs 3.10 and 3.12 of the Audit Report that eventually the number of the residential units at the Site had increased from about 1,000 to 2,020. The Committee asked about the number of additional carparking spaces provided

as a result of the increase and whether the increase had led to the granting of bonus area to the Developer.

124. In his letter of 31 December 2005, the **Director of Buildings** replied that:

- the figure of around 1,000 residential flats represented the number of flats estimated in the notional scheme worked out by the Plan D in 1998. The notional scheme was only to provide a rough estimate based on a set of planning assumptions. As there had been no submission of building plans in the present case which proposed 1,000 residential units, there was no carparking proposal based on such number of residential units; and
- the number of residential units proposed by the Developer in the first and the latest submission of building plans for approval in 2001 and 2005 was 1,912 and 2,020 respectively. The number of carparking spaces for motor vehicles proposed in the two building plan submissions mentioned above was 478 and 505 respectively, representing an increase of 27 carparking spaces. These carparking spaces were located on L1/F, L2/F and L3/F of the development i.e. on floors above the PTT on G/F. Since the provision of the carparking spaces was found acceptable by the TD in the various submissions of building plans, they were disregarded from GFA calculation under regulation B(P)R 23(3)(b). The increase in the number of carparking spaces had not led to any granting of bonus area to the Developer.

G. Site Classification

125. According to Note 21 in paragraph 5.2 of the Audit Report, a Class B site is a corner site that abuts on two streets neither of which is less than 4.5 metres wide. The corner site is not regarded as abutting on two streets unless at least 40 percent of the boundary of the site abuts on the streets. For a Class B site, the maximum plot ratio permitted for a domestic building is 9, and that for a non-domestic building is 15. A Class C site is a corner site that abuts on three streets none of which is less than 4.5 metres wide. The corner site is not regarded as abutting on three streets unless at least 60 percent of the boundary of the site abuts on the streets. For a Class C site, the maximum plot ratio permitted for a domestic building is 10, and that for a non-domestic building is 15.

126. The Committee noted from paragraphs 5.2 to 5.14 of the Audit Report that in January 1999, the BD advised the Lands D that the Site was a Class B site under the Buildings Ordinance. In December 1999, to qualify the Site as a Class C site, the Lands D incorporated a Special Condition in the lease stating that an area of about 194 m² (i.e. Area III) would be demarcated as a non-building area and should be open for public passage at all times. In the circumstances, the Lands D and the prospective tenderers might have considered that Area III would have to be excluded from the site area in plot

ratio and site coverage calculations. Indeed, the Lands D had excluded this area from the site area calculation when it carried out the reserve price valuation. However, after the sale of the Site, at the BAC held on 1 August 2001, the Building Authority agreed that the Site was a Class C site without requiring the Developer to demarcate Area III as a street.

127. Against the above background, the Committee asked why:

- the Building Authority agreed that the Site was a Class C site after the lot had been sold while the BD had advised, prior to the land sale, that it was a Class B site; and
- the Developer was not required to exclude Area III from the site area calculation subsequently.

128. The **Director of Buildings** responded that:

- prior to the sale of the lot, the BD considered that Area II was not a street under the Buildings Ordinance. To qualify the Site as Class C, it was necessary to demarcate Area III as a street and, under the Buildings Ordinance, it would have to be deducted from the site area in plot ratio and site coverage calculations;
- in April 2001, the AP submitted building plans on the basis that Area II was a street and the Site was a Class C site. In view of the AP's claim, the BD asked the District Lands Office/Hong Kong East to confirm the land status and use of Area II; and
- when the BAC considered the classification of the Site on 1 August 2001, for the reasons as recorded in the minutes of that meeting, the Building Authority agreed that Area II was a street under the Buildings Ordinance and the Site was a Class C site. As such, the Developer was not required to demarcate Area III as a street and, under the Buildings Ordinance, there was no need to exclude it in the plot ratio and site coverage calculations.

129. The Committee further asked why the Lands D had not sold the land on the basis of a Class C site so as to attract a higher premium.

130. The **Director of Lands** and the **Deputy Director of Lands (General)** said that:

- the Lands D had not made any statement as to the site classification publicly or in the lease conditions. The Lands D needed to know the classification for evaluation purposes. Upon the Lands D's enquiry, the BD informed the

Lands D that the Site was a Class B site. The advice accorded with the Lands D's opinion and it proceeded on that basis. That was why the Lands D made provision for Area III of about 194 m² to be demarcated as a non-building area in order that Class C status could be achieved, thereby achieving the maximum GFA and the maximum value; and

- it should be clear to developers that the purpose of requiring Area III to be demarcated was to qualify the Site as a Class C site.

131. The Committee referred to paragraph 5.15 of the Audit Report which stated that, according to the BD, in August 2001, the BAC ruled that the Site was a Class C site and overruled the decision made by the CBS in January 1999. Noting that the physical status of the area affecting the site classification had remained more or less the same before and after the land sale, the Committee asked why the Building Authority agreed in August 2001 that the Site was a Class C site, thereby enhancing the development potential and value of the Site after the land sale.

132. **Mr LEUNG Chin-man** explained that:

- the lease conditions had not mentioned whether the Site was Class B or Class C, but they did state that Area III would be demarcated as a non-building area and should be open for public passage at all times. Given that the lease was also silent as to the maximum GFA, all developers had the opportunity to put forward their case to argue that Area II was a street and they would have taken this factor into account when bidding for the Site. Thus, there was no question of the Government having lost any land premium;
- paragraph 5.15(c) of the Audit Report stated that the BAC decision on 1 August 2001 “overruled the decision” made by the CBS in January 1999. This was in fact not the case. The CBS's view on site classification was only an advice but not a decision, as it was given before the land sale. Upon the receipt of the AP's application after the land sale, the Building Authority would consider all the relevant facts and information before him and make a determination. In this case, the decision was made by the Building Authority at the BAC of 1 August 2001;
- when giving his advice in January 1999, the CBS focused on the fact that Areas I and II in Figure 2 of the Audit Report had been designated as “open space” on the draft OZP No. S/H21/10. According to the BD Manual, open space could not be accepted as street for site classification purpose under B(P)R 2. At the BAC on 1 August 2001, having factored in all relevant facts and information, as well as the actual circumstances of the case, it was agreed that:

- (a) Area II was an existing emergency vehicular access to the marine fuelling stations and an access to the public landing area. It bore the characteristics of a street and would continue to serve the marine fuelling stations and the public landing area;
 - (b) as informed by the Plan D, it was the planning intention to develop Area II into a waterfront promenade. The piers would be used as a recreational area. Area II would serve as an emergency vehicular access to the piers; and
 - (c) apart from having the characteristics of a street, the permanency of Area II under the Buildings Ordinance could be ascertained in view of (a) and (b) above; and
- in view of the above, he accepted the AP's submission that the Site was Class C without the need to exclude Area III from the site area in the plot ratio and site coverage calculations.

133. In response to Mr LEUNG's remarks, the **Director of Audit** responded that the information contained in paragraph 5.15(c) of the Audit Report was reproduced from the reply of the BD to Audit.

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

Pre-tender enquiries on gross floor area (GFA) calculation

- expresses great dissatisfaction that:
 - (a) the Lands Department (Lands D) had not publicised pre-tender enquiries and answers on GFA calculation before the close of tendering of the land sale of the Site; and
 - (b) when a prospective tenderer sought, after noting that there was no explicit statement on exemption of the Government Accommodation from the GFA calculation under the Land Grant Conditions and that public transport termini (PTTs) were often exempted from GFA calculation in a number of other cases, confirmation that the Government Accommodation (i.e. the PTT and the marine police operational area (MPOA)) would be exempted from the GFA calculation of the Site, the Lands D only informed the tenderer that the Conditions of Sale did not specify a maximum GFA and, as advised by the Director of Buildings, "the Government Accommodation shall be included in the GFA calculation, under B(P)R 23(3)(a)". The response could have been interpreted as that the PTT would be included in the GFA calculation;

- notes that the Director of Lands has agreed to implement the audit recommendations mentioned in paragraph 2.9 of the Director of Audit's Report (the Audit Report);

Development intensity of the Site

- expresses concern that, before recommending a minimum domestic GFA of 80,000 square metres (m²) for the Site in November 1999, the Planning Department (Plan D) had not reassessed the need for and the adequacy of public facilities in the district with a view to ensuring that adequate facilities and infrastructure would be provided;
- notes that:
 - (a) the Director of Planning has agreed to implement the audit recommendations mentioned in paragraph 3.26 of the Audit Report; and
 - (b) the Director of Lands has agreed to implement the audit recommendation mentioned in paragraph 3.27 of the Audit Report;
- recommends that the Secretary for Housing, Planning and Lands should improve the communication and coordination among the Buildings Department (BD), the Lands D and the Plan D to ensure that planning intentions are achieved when a site is developed;

Provision of Government Accommodation

- expresses great dissatisfaction that from the outset, when the Architectural Services Department (ArchSD) said that the net operational floor area of the MPOA of 1,500 m² was not adequate, the Lands D and the ArchSD did not take any action to resolve the problem by either revising the area of the MPOA, or by reducing the number of parking bays;
- expresses serious disappointment that the Control Drawing attached to the lease conditions was “for information only” and was “not to scale”. As a result, the ArchSD considered that there were no grounds to reject the Authorised Person (AP)'s proposed layout of the MPOA although it deviated from the original design in the Control Drawing;
- notes that:
 - (a) the Director of Architectural Services has agreed to implement the audit recommendations mentioned in paragraph 4.31 of the Audit Report; and
 - (b) the Director of Lands has agreed to implement the audit recommendation mentioned in paragraph 4.32 of the Audit Report;

Site classification

- expresses grave concern that, in deciding the site classification before the land sale, the BD had not sought clarification from the Plan D about the planned use of Area II, on which the Building Authority had subsequently relied as one of the considerations for accepting the AP's submission that the Site was a Class C site without the need to exclude Area III from the site area calculation;
- expresses dissatisfaction that it might have been unfair to other tenderers in the sale of the Site as the Building Authority had subsequently accepted that the Site was a Class C site and this increased the development potential of the Site after the land sale;
- notes that the Director of Buildings has agreed to implement the audit recommendations mentioned in paragraph 5.19 of the Audit Report;

Granting of exemption areas

- finds it unacceptable that:
 - (a) although the BD had advised the Lands D, when the draft Special Conditions of the lease of the Site were being prepared, that the Government Accommodation should be included in the GFA calculation, the information had not been incorporated into the lease conditions of the Site;
 - (b) the lease conditions of the Site had not specified whether the Government Accommodation should be included in the GFA calculation. Prospective tenderers therefore could have doubts about this point;
 - (c) for cases where there was no maximum GFA clause in the lease conditions, the Lands D did not consider it appropriate to stipulate in the lease conditions whether the government accommodation required would be included in GFA calculation; and
 - (d) the BD did not, in the absence of established procedures, devise any criteria for appointing external observers when the two observers were invited to attend the Building Authority Conference (BAC), and they had not been required to declare whether they had any conflict of interest;
- expresses alarm and strong resentment, and finds it unacceptable that, in deciding to exercise his discretionary power to exclude the PTT from the GFA calculation, the Building Authority:

- (a) had not attached due weight to the factors for consideration listed in the guidelines on exercising discretionary approval (i.e. Practice Note 23 issued by the BD in September 2000), including lease restrictions, views of other government departments, effect of the development on the adjoining sites and the district, and fairness;
 - (b) had adopted a very restrictive view on public interest, by confining himself to the question of whether the provision of the PTT was in the public interest, without due regard to other factors that might be relevant, e.g. the lease had already required the Developer to provide the PTT, the difficulty likely to be faced by the Lands D in charging additional premium, and the visual impact, increased development intensity and obstruction to air flow resulting from increased building bulk/height;
 - (c) had viewed the role of the Building Authority as distinct from that of a civil servant holding the post of Director of Buildings. As such, he had not adequately taken into consideration such public interest and government policies that might be relevant;
 - (d) had not attached due weight to the views of other government departments which had raised objection to the exclusion of the PTT from the GFA calculation because, apart from the Plan D, representatives of the other relevant government departments (i.e. the Lands D, the Transport Department (TD), the Highways Department (HyD) and the Fire Services Department), had not been invited to the BAC held on 22 October 2001 at which the Building Authority decided on the matter; and
 - (e) had not sought clarification on the legal advice given by the Department of Justice, on which he had relied in discounting considerations that might be relevant although the advice did not make specific suggestion in that respect;
- expresses grave dismay at the Building Authority's decision to exclude the PTT from the GFA calculation of the Site and finds it unacceptable, as it:
- (a) had negative financial implications, in that:
 - (i) the value of the Site would be affected by whether any of the Government Accommodation would be included in or excluded from the GFA calculation. The tender price offered might have been higher if the PTT had been excluded from the GFA calculation at the outset;

- (ii) the Lands D's assessment of the tender reserve price of the Site was on the basis that the Government Accommodation would be included in the GFA calculation. The reserve price could have been higher if it had been decided before the land sale that the PTT with an area of 7,297 m² would be excluded from the GFA calculation; and
 - (iii) the prospective tenderer who received written confirmation that the Government Accommodation "shall be included in the GFA calculation" subsequently offered the second highest bid. That tenderer might have put forward an even more competitive bid if he had been informed that the PTT would be excluded from the GFA calculation; and
- (b) might be unfair to other tenderers in the sale of the Site as it was contrary to the advice given to some tenderers before the close of the land sale that the Government Accommodation would be included in the GFA calculation, and this decision increased the value of the Site after the land sale;
- notes that:
 - (a) the Director of Buildings has agreed to implement the audit recommendations mentioned in paragraph 6.27 of the Audit Report;
 - (b) the Director of Lands has agreed to implement the audit recommendation mentioned in paragraph 6.28 of the Audit Report; and
 - (c) the Administration has agreed in April 2005 that the planning intention is that PTTs should be included in GFA calculation unless otherwise specified in the relevant town plan or any specific planning approval for a site, and the Building Authority will follow the planning intention in exercising his discretion in granting GFA exemption for PTTs;
- strongly urges:
 - (a) the Building Authority to ensure that, when exercising his discretionary power, he will include in his consideration of an application the factors listed in any applicable Practice Note issued by the BD; and
 - (b) the Administration to review the criteria for deciding whether or not the maximum GFA of a site should be specified, with a view to removing any ambiguities about the development potential of the site;

Granting of bonus areas

- expresses grave dismay that:
 - (a) although no Lands D's endorsement had been obtained after the BAC's decision on 1 August 2001 that the Developer's proposed dedication of the Reserved Areas in return for bonus areas should be approved subject to the layout of the PTT being acceptable to all relevant government departments, the Building Authority approved the granting of bonus areas on 1 September 2001 without giving any explanation; and
 - (b) the Building Authority approved the granting of bonus areas to the Developer on the basis that the proposed provision of landscaped areas and a larger PTT would benefit the public although the ArchSD, TD and HyD considered that the Government Accommodation could be constructed according to the Control Drawings and the Technical Schedules and the extension of the PTT into the Reserved Areas stemmed from the Developer's design and not from a requirement of the MPOA;
- expresses serious dismay that, when considering the AP's application for bonus plot ratio as a result of the Developer's revised design of the Government Accommodation, the relevant government departments had not evaluated the implications of the proposal on government revenue and development intensity against the benefits;
- notes that:
 - (a) the Director of Buildings has agreed to implement the audit recommendation mentioned in paragraph 7.31 of the Audit Report; and
 - (b) the Director of Lands has agreed to implement the audit recommendation mentioned in paragraph 7.32 of the Audit Report; and

Follow-up actions

- wishes to be kept informed of:
 - (a) the actions taken by the Secretary for Housing, Planning and Lands to improve the communication and coordination among the BD, the Lands D and the Plan D to ensure that planning intentions are achieved when a site is developed;
 - (b) any action taken to ensure that the Building Authority, when exercising his discretionary power, will include in his consideration of an application the factors listed in any applicable Practice Note issued by the BD;

- (c) the progress of any review on the criteria for deciding whether the maximum GFA of a site should be specified, with a view to removing any ambiguities about the development potential of the site; and
- (d) the progress made in implementing the various audit recommendations.

The Committee noted that the Audit Commission had conducted a review on the operation and training of the Civil Aid Service (CAS).

2. The Committee did not hold any public hearing on this subject. Instead, the Committee asked for written response to its enquiries.

3. The Committee noted with concern from paragraph 5.5 of the Director of Audit's Report that the average usage rate of the four training centres (namely, the CAS Headquarters in Causeway Bay, the CAS Hong Kong Training Centre in Causeway Bay, the CAS Kowloon Training Centre in Kowloon City and the CAS Cadet Training Centre in Hung Hom) was only 23%. It also noted from paragraph 5.7(a) that the CAS would return the CAS Kowloon Training Centre and the CAS Cadet Training Centre to the Government Property Agency (GPA) in mid-2006 upon the reprovisioning of the CAS Headquarters to the West Kowloon Reclamation. Given that the usage rate of the morning session of the CAS Hong Kong Training Centre in Causeway Bay was only 4%, the Committee asked:

- about the measures that would be taken by the CAS to increase the usage of the CAS Hong Kong Training Centre; and
- whether the CAS would consider returning the CAS Hong Kong Training Centre to the GPA in view of its low usage; if not, the reasons for retaining it.

4. The **Chief Staff Officer, CAS**, responded to the Committee's enquiries in his letter of 12 December 2005, in **Appendix 30**. The Committee took note of the information provided therein.

The Committee noted that the Audit Commission (Audit) had conducted a review to examine the recovery of legal costs by the Legal Aid Department (LAD). The review focused on the following areas:

- cost recovery of the legal aid schemes;
- planning and monitoring of the recovery of legal costs;
- enforcement proceedings against judgment debtors;
- administration of outstanding and irrecoverable legal costs; and
- Audit's access to legal aid case files.

2. As Hon Andrew CHENG Kar-foo has declared that he is a lawyer on the Legal Aid Panel, the Committee has agreed that he be relieved from taking part in the examination of this chapter.

3. The Committee did not hold any public hearing on this subject. Instead, the Committee asked for written responses to its enquiries.

4. The **Director of Legal Aid** and the **Director of Accounting Services** responded to the Committee's enquiries in their respective letters of 1 December 2005, in *Appendices 31 and 32*. Their responses are set out in the ensuing paragraphs.

A. Cost recovery of the legal aid schemes

5. The Committee noted from paragraphs 2.6 to 2.8, 2.12 and 2.18 of the Director of Audit's Report (the Audit Report) that the accrual-based accounting principle was adopted in compiling the financial statements of the Supplementary Legal Aid Scheme (SLAS). On the other hand, receipts and payments under the Ordinary Legal Aid Scheme (OLAS) were accounted for in the Government's General Revenue Account, which adopted the cash-based accounting principle. Audit considered that the financial statements of the SLAS reflected more clearly its financial performance, including the extent to which legal costs incurred in legal aid cases had been recovered, than the financial information published in the Estimates and the LAD's annual reports for the OLAS.

6. The Committee also noted Audit's other view that, in order to enhance transparency and public accountability, there were merits for the LAD to disclose to the public the extent to which legal costs of civil cases under the OLAS where the court had awarded an order for costs and damages to the aided person had been recovered. The Committee asked whether the LAD would:

- reconsider adopting the accrual-based accounting principle in compiling the financial statements under the OLAS in view of Audit's view; and
- prepare and disclose to the public relevant financial information, in the form of income and expenditure statements similar to those for the SLAS, for the above-mentioned OLAS cases.

7. In his letter of 1 December 2005, the **Director of Legal Aid** informed the Committee that:

- the issue related to the difference between cash-based accounting and accrual based accounting, a subject relevant to not just the legal aid schemes but also the government accounting arrangement as a whole. The Government's General Revenue Account adopted cash-based accounting;
- there was a fundamental difference in nature and in the mode of operation between the OLAS and the SLAS. The SLAS, operated on a contingency fund basis, had been set up as a self-financing scheme. The successful aided person would pay to the SLAS Fund a percentage of the damages recovered to support the administration cost and the costs of other cases under the SLAS, so as to maintain self-sufficiency of the Scheme;
- the OLAS, like many other government services, was a form of public service which incurred expenditure on the Government. Though it also received payments, its objective was not to make a profit or surplus. Indeed, it could never make a profit. The design of the OLAS was such that the LAD could at best recoup only the expenses it had paid out for the purpose of the legal aid proceedings. The LAD bore the entire cost for processing applications and their subsequent monitoring. Against this background, the expenditure of the OLAS should not, as a matter of principle, be used as a benchmark to measure the success or otherwise of the Scheme, bearing in mind that the policy objective for the OLAS was to ensure that no one with a reasonable case for pursuing or defending legal proceedings should be denied access to court because of lack of means;
- the current cash-based presentation of financial information on the OLAS in the Annual Estimates was in line with the format adopted by other departments in the Estimates in respect of services provided to the public. Under the cash-based accounting principle, legal aid costs incurred for the OLAS were recorded on a rolling basis and a position at a point in time or in a period of time was shown in the Annual Estimates with the primary aim of monitoring the expenditure of legal aid costs to ensure that the expenditure stayed within the approved estimates. Similarly, the costs recovered from legal aid cases for a financial year were also recorded on a rolling basis and a position at a point in time or in a period of time was also shown in the Annual

Revenue Estimates. It was, however, not necessary to match the actual income and expenditure in order to ascertain the surplus or deficit as the OLAS was not a self-financing scheme and would never make a profit;

- as for the SLAS, because of its self-financing nature, it was of the greatest importance to ensure the financial well-being of the fund at all times. To this end, the financial statements for the SLAS differed from the usual format for other government services, including the OLAS, and were prepared on an accrual basis. The statement of income and expenditure showed income and expenditure for a financial year on accrual basis, so as to identify surplus or deficit for that year. Some of the income or expenditure items were directly related to the finalised cases, e.g. payment from aided persons out of damages recovered from finalised cases, and legal costs and disbursements incurred in the finalised cases, but some did not, e.g. administration cost incurred in the processing of applications and monitoring of cases, and bank interest and charges. The balance sheet showed the accumulated balance of the fund as at the end of the financial year. Similar accounting arrangements were adopted for other government funds which were run on a self-financing basis, e.g. trading funds operated by trading fund departments;
- in the light of the above, it would not be cost-effective or appropriate to adopt the accrual-based accounting principle and to prepare financial statements for the OLAS cases on a par with the accounting arrangements in respect of the SLAS. The reasons were as follows:
 - (a) given the nature of the OLAS which was not a self-financing scheme, the costs incurred would invariably exceed the income. Preparing financial statements similar to those for the SLAS, the main purpose of which was to show the surplus or deficit position so that the LAD could monitor the viability of the fund, would not provide additional meaningful or useful information to both the LAD and the users;
 - (b) the current cash-based accounting principle adopted for the OLAS was in line with service wide arrangements. The LAD had consulted the Director of Accounting Services who had also advised that the present different formats of the financial statements for the OLAS and the SLAS were in line with the accounting policy of the Government for monitoring the financial aspects of the two legal aid schemes;
 - (c) the use of the accrual-based accounting involved an overhaul of the LAD's current system, e.g. the staff costs for processing and monitoring thousands of cases had to be apportioned, staff (officers and clerical alike) would need to clock their activities and input the time into the system even though the costs were not to be recovered, and the current Case Management and Case Accounting System had to be overhauled as well. The additional resources implications for enhancement of the

system would be significant and the time taken for staff to clock and input into the system the time spent on every piece of work that they had carried out would inevitably hamper the efficiency and effectiveness of the services provided to the public if there was no additional manpower provided; and

- (d) as the Government still adopted cash-based accounting for its General Revenue Account, it meant that the LAD would have to run both systems in parallel. The existing accounting support resources, one Treasury Accountant and one Accounting Officer I, would have to be increased significantly to undertake the large volume of extra work generated; and
- against the above background, Audit had decided not to include in its recommendations its original proposal for the adoption of such accounting arrangements.

8. The Committee noted from paragraph 2.13 of the Audit Report that, in its 1995-96 Controlling Officer's Report, the LAD reported the "amount of damages, maintenance and costs recovered as % of total amount due to department and aided persons". The percentages were 31.4% in 1993, 53.9% in 1994 and 40% in 1995. Since then, the LAD had not provided similar statistics in its Controlling Officer's Reports. The Committee asked:

- why the LAD had not continued to provide the statistics in its subsequent Controlling Officer's Reports; and
- whether the LAD would disclose these statistics to the public in future.

9. The **Director of Legal Aid** responded in his letter that:

- since 1995-96, the LAD had discontinued the preparation of statistics on "amount of damages, maintenance and costs recovered as % of total amount due to department and aided persons". It had been accepted that there was no direct relationship between the LAD's performance and the damages/costs recovery ratio. A higher or lower ratio in a year could not serve as a relevant or reliable indicator of the LAD's performance in that year. The recovery ratio was indeed affected by many external factors beyond the control of the LAD. The most pertinent ones being the nature of the cases involved, the financial circumstances of opposite parties and the general economic situation in Hong Kong, as elaborated below:

- (a) *Case nature:* Experience showed that full recovery of damages and costs was more likely or achievable only in personal injuries claims because most, if not all, of the opposite parties were insured. In some cases, payment was underwritten by bodies such as the Employees Compensation Assistance Fund Board and the Motor Insurers' Bureau;
 - (b) *Financial circumstances of opposite parties:* About 92% of the legal costs written off in 2004-05 were attributable to two types of cases, namely, wages claims against insolvent employers (at \$38 million, or 61%) and matrimonial cases (at \$ 19.4 million, or 31%). For insolvency cases, by nature, the chance of recovery was very slim since the employers who were the judgment debtors were invariably financially insolvent, and were the subjects of either a bankruptcy or winding-up order. As for matrimonial cases, many of the judgment debtors faced similar financial difficulties as the aided persons. They were often unemployed or of low income, and their financial well-being was particularly susceptible to changes in the economic situation in Hong Kong; and
 - (c) *Economic situation in Hong Kong:* The impact of the economic situation in Hong Kong on costs recovery rate was best illustrated by the drastic drop in the write-off amount for the first six months of 2005-06 which was \$18.3 million, 45% less than that in the same period in 2004-05. This helped to show that judgment debtors in legally aided cases were particularly vulnerable to the economic downturn in the past few years, and also helped to explain the reason for their failure to pay costs due to aided persons;
- the LAD had explained the above to Audit during the course of the audit review, and took it that Audit had accepted the LAD's explanation as Audit had not included in its recommendations its original proposal for the LAD to reintroduce the compilation of the percentage recovery statistics. The replacement proposal for the LAD to identify additional indicators for evaluating the efficiency and effectiveness of legal aid services had been accepted by the LAD; and
 - in view of the concern expressed by the Committee, the LAD would make the information available to the public.

10. According to paragraph 2.15 of the Audit Report, the LAD had paid \$16.9 million in 2003-04 and \$22.2 million in 2004-05 by way of legal costs to the opposite party in respect of cases where judgment was in the latter's favour. The Committee asked, for transparency and public accountability purposes, whether the LAD would disclose such information in its annual reports and website in future.

11. The **Director of Legal Aid** advised that:

- the amount of legal costs paid to opposite parties bore no direct relationship with and provided little information on the performance of the LAD. By law, legal aid should be granted where there was a reasonable case for court proceedings. It was not the policy objective that legal aid should only be granted to a cast-iron case. Neither would it be appropriate to use the outcome of court cases or the amount of legal costs paid to opposite parties as the LAD's performance indicator;
- the LAD took it that Audit had accepted its explanation as the latter had not included in its recommendations its original proposal on the requirement for statistics of payment of legal costs to the opposite party; and
- in view of the concern raised by the Committee, the LAD would provide the information to the public. Indeed, the LAD had been actively exploring various alternatives and drawing reference from experience of overseas legal aid authorities. It would keep the Committee informed of the developments.

12. In response to the Committee's enquiry on the adoption of a computerised staff time-charging system by the LAD, the **Director of Legal Aid** informed the Committee that:

- the computerised staff time-charging system commonly adopted by professional firms was to record the staff time expended in each case and the staff cost incurred, for the purpose of cost management and billing arrangements; and
- the LAD had in place a similar computerised system, namely, the time-costing programme in respect of areas of work for which costs were chargeable for in-house litigation cases. The objective of this system was to support costs assessment and generate bills of costs similar to the arrangements in professional firms in private practice.

B. Enforcement proceedings against judgment debtors

13. The Committee noted Audit's view in paragraph 4.12 of the Audit Report that, in conducting searches for judgment debtors' addresses, the LAD should coordinate the requests and send them, in computer-readable form, periodically to all relevant government departments and the Hospital Authority which might have such information. In response to the Committee's enquiry as to whether the LAD would adopt this arrangement, the **Director of Legal Aid** stated that:

- in taking enforcement proceedings, the LAD was acting as solicitors of aided persons in civil proceedings. That being the case, the LAD owed a duty to act professionally not only to the aided person but also to the court. Costs and disbursements incurred in the enforcement proceedings might only be recovered from the opposite party if the LAD could demonstrate to the court that it was proper and necessary to incur them and that the amounts incurred were fair and reasonable. The need for and the frequency of conducting searches for addresses as well as assets and income of judgment debtors must therefore be determined by the facts of the cases in question. Since each case was different, action should be taken only where the circumstances of a particular case warranted it. It was also noteworthy that, for costs that could not be recovered from the opposite party, they would be borne by the aided person where property had been recovered or by the public fund in other cases. Hence, there was a need to be prudent in conducting enforcement proceedings;
- the LAD had indeed been sending requests to all relevant government departments and the Hospital Authority if, based on the facts of the cases in question, there were reasons to believe that these departments/agencies might have the required information. The LAD assured the Committee that it would continue to exercise its professional judgment with due care and would make its best endeavours in this regard;
- regarding the form of delivery, the LAD had already been sending requests in electronic forms and templates wherever possible. It would continue to do so; and
- in making the relevant searches, the LAD should exercise prudence in deciding what was the “relevant” organisation that might have the information required for the specific case in question, bearing in mind that:
 - (a) the costs of the searches might need to be borne by the aided person where property had been recovered or by the public fund, and the LAD should hence minimise unnecessary searches and reduce related costs. If the LAD was to conduct all the searches with the departments/agencies set out in paragraph 4.9 of the Audit report, the costs of the searches would come to about \$3,500 for each case; and
 - (b) the work involved, not only in respect of the LAD, but also of the receiving departments, could be substantial if such searches were conducted indiscriminately or, as a matter of course, bearing in mind that there were a large number of such searches ongoing at any one time. For example, there were currently about 370 address searches being conducted each month. The cumulative effect and hence the workload for the departments/agencies on the receiving end would be significant. It was imperative that the LAD should be prudent and should ensure

that the searches were relevant and likely to be useful before requiring the departments/agencies to devote resources to facilitate the searches. For instance, the LAD should not insist on a particular area of search if the instructions given by the aided person and the information to the LAD already showed that a department/agency did not possess or could not provide the information required.

14. The Committee also noted Audit's view in paragraph 4.17(b) of the Audit Report that, for cases other than those with sufficient and clear reasons for write-off, the LAD should consider conducting searches for assets and income of judgment debtors at the Land Registry, Companies Registry, Business Registration Office and Transport Department. The Committee asked whether the LAD would adopt Audit's proposal and conduct such searches.

15. The **Director of Legal Aid** pointed out that the LAD would only write off outstanding costs when there were sufficient reasons for doing so. As the costs of the searches might need to be borne by the aided persons or by the public fund eventually, the LAD had reservations about indiscriminate searches on an across-the-board basis, without paying due regard to the facts of the case. Nevertheless, the LAD assured the Committee that it would endeavour to conduct relevant and appropriate searches among identified departments, with due consideration given to the circumstances of each case.

16. According to paragraph 4.19 of the Audit Report, the LAD has laid down seven types of legal proceedings for taking enforcement actions against judgment debtors. The Committee noted Audit's view in paragraph 4.22 that the LAD should prepare a checklist of enforcement actions to help its staff document the actions taken, together with the results, and the reasons for not pursuing certain courses of action. In this connection, the Committee asked whether the LAD would adopt the proposed checklist arrangement.

17. In his letter, the **Director of Legal Aid** replied that:

- in determining the mode of recovery action for a particular case, the professional officer had to assess, subject to the circumstances of the case, the prospect of success of such action and which mode of action was the most cost-effective. Indeed, Audit had not included in its recommendations its original proposal on the requirement for the above checklist arrangement; and
- in view of the Committee's concern, the LAD would consider the format of the proposed checklist and see how it could be put to effective use before writing off outstanding costs.

C. Administration of outstanding and irrecoverable legal costs

18. The Committee noted from paragraph 5.10 of the Audit Report that the Director of Accounting Services agreed with Audit that outstanding legal costs awarded to the aided person were, in substance, government revenue and therefore should be included in the annual returns of arrears of revenue as laid down in Standing Accounting Instruction (SAI) 1020. However, as revealed in paragraph 5.16(a), the LAD considered that as costs owed by the opposite party in legally-aided proceedings pursuant to a court order were debts due to the aided person and not to the Government, such costs did not fall within the ambit of SAI 1020 and should not be included in the annual returns of arrears of revenue. As the Director of Accounting Services was the official who had been authorised to interpret the SAIs, the Committee asked the Director if she maintained her view that the LAD should include in its annual returns of arrears of revenue outstanding legal costs awarded to the aided person.

19. In her letter of 1 December 2005, the **Director of Accounting Services** reaffirmed her view that, to facilitate monitoring, the Director of Legal Aid should provide her with an annual return on the outstanding legal costs awarded to aided persons. She added that, taking into account the special circumstances of the LAD, the Treasury would work with the Director of Legal Aid to design a specific form for use by the LAD in future reports to the Treasury on outstanding legal costs awarded to aided persons.

20. In response to the Committee's question as to whether the LAD would include in its annual returns of arrears of revenue outstanding legal costs awarded to the aided person, the **Director of Legal Aid** stated in his letter that:

- to enhance public accountability and facilitate monitoring, the LAD agreed with the Director of Accounting Services on the need for the LAD to compile annual returns on the outstanding legal costs awarded to aided persons;
- taking into account the legal position that costs due from an opposite party were costs due to the aided person and not to the Government, as confirmed by legal advice of the Department of Justice, it would not be appropriate to report such amounts in the specific annual returns of arrears of revenue, under SAI 1020, due to the Government;
- an alternative and pragmatic way forward could be for the LAD to devise appropriate reports to the Director of Accounting Services to achieve the same objectives underlined by Audit. In this regard, the LAD noted the Secretary for Financial Services and the Treasury's advice in paragraph 5.17 of the Audit Report that the LAD might consider including the amounts in other suitably formatted reports. Hence the proposed alternative report to the Director of Accounting Services; and

- the LAD would work closely with the Director of Accounting Services to design a specific form to cater for the special circumstances of the LAD. It was confident that the two departments would be able to develop a mutually agreeable format for the LAD to report on outstanding legal costs awarded to aided persons in future. The LAD would keep the Committee informed of the progress.

21. The Committee noted from paragraph 5.11 of the Audit Report that, following Audit's request in May 2005 for the LAD to provide it with a list of legal aid cases with outstanding legal costs to be recovered, the LAD had only provided a list of cases where there had been outstanding instalment payments due to the LAD. In response to the Committee's request for the provision of a list of legal aid cases with outstanding legal costs to be recovered as at 31 March 2005, the **Director of Legal Aid** said in his letter that:

- the LAD and Audit had had detailed discussions on the specific cut-off or point in time that legal costs due to an aided person should be regarded as outstanding legal costs to be recovered. This was because there were many external but complex issues that would affect the progress and outcome of a particular case. For instance, an opposite party might appeal against the costs order or the court order as a whole, the amount of costs had to be agreed or assessed by the court, or the opposite party might seek a review even after the court had determined the costs after taxation; and
- in the light of the above, the LAD had explained to Audit that it might arrive at the outstanding costs to be recovered only when an opposite party had agreed to pay the costs by signing an undertaking or had been ordered by the court to pay the costs by instalments. It was on this basis that Table 6 in paragraph 5.11 of the Audit Report had been prepared to capture the amount of outstanding legal costs to be recovered as of 31 March 2005.

D. Audit's access to legal aid case files

22. The Committee noted from paragraphs 6.9 and 6.10 of the Audit Report that, regarding those aided persons who had not given consent to Audit's access to their case files, the LAD had discussed with Audit in February 2005 the possibility of providing Audit with photocopies of the case files selected by Audit with the personal data concealed. The LAD had informed Audit in May 2005 that the production of such photocopied case files involved photocopying of voluminous files and efforts of the LAD's staff, including professional officers who needed to go through the files to ensure that there was no inadvertent disclosure of personal data. As a result, Audit could only examine 173 case files, i.e. 26% of the 661 case files selected by Audit.

23. In response to the Committee's question as to whether the LAD would, in future, use the same reasons given in May 2005 to refuse making photocopies of the case files selected by Audit, the **Director of Legal Aid** clarified in his letter that:

- the LAD had undertaken to continue to facilitate Audit's access to its case files even for cases to which the legally aided persons had not granted their consent for such disclosure. In these cases, the LAD would stand ready to make photocopies of the case files with all personal data obliterated. This would serve to balance the need for Audit to have access to case files to conduct value for money audits, whilst observing the need to respect the fundamental right of privacy of the aided persons;
- as to the incident above, the LAD had on no occasion refused to photocopy the case files. While the discussion of the possibility of making photocopies of case files had taken place in February 2005, Audit had requested on 26 April 2005 to have the files of 513 cases for inspection, with a request that the files be provided within a month's time. The LAD had immediately begun to seek consent from the 500-odd aided persons to disclose their case files to Audit. As Audit might require photocopies of those files where the aided persons had refused to give consent, the LAD had invited Audit to consider, before it made a decision, the resource constraints for the LAD to provide the large volume of case files with all the personal data removed manually. The LAD had also appealed to Audit that, should it decide to have photocopies of case files, the number of such files be kept to a manageable size; and
- the LAD, though facing the problem of limited resources, would always stand ready to cooperate with Audit to facilitate its value for money audits. Nevertheless, the LAD would make its best endeavours to render assistance within a reasonable remit.

24. Paragraph 6.12 of the Audit Report revealed that the LAD would consider setting up an independent team of its staff to conduct examination of case files selected by Audit where consent of the aided persons had not been given. In response to the Committee's enquiry about the progress made in this regard, the **Director of Legal Aid** advised, in his letter, that the LAD had engaged its internal audit team to examine the case files in question with a view to identifying non-compliance with the LAD's relevant guidelines as well as areas for improvement. The LAD would keep the Committee informed of the progress in due course.

E. Follow-up action

25. The Committee notes the replies of the Director of Legal Aid and the Director of Accounting Services and wishes to be kept informed of the progress of the various courses of action taken by the LAD.

The Committee noted that the Audit Commission had conducted a review on the extent of success of the Government's efforts in developing sustainable systems to keep Hong Kong clean.

2. The Committee did not hold any public hearing on this subject. Instead, the Committee asked for written response to its enquiries.

3. From paragraphs 4.2, 4.5, 4.6 and 4.9 of the Director of Audit's Report, the Committee noted that after the outbreak of the Severe Acute Respiratory Syndrome, there had been concerns about the general cleanliness of food premises. Food business operators in general had met the minimum legal hygiene requirements, but many of them might be reluctant to upgrade the hygiene standard of their food premises out of financial considerations. In parallel with the stepping up of inspections and enforcement actions, Team Clean proposed to launch a loan scheme, known as the Incentive Scheme for Hygiene Improvement in Food Premises (the Incentive Scheme), to help improve the hygiene conditions of food premises. However, the response to the Incentive Scheme was poor. Noting that the Food and Environmental Hygiene Department (FEHD) had undertaken to conduct a review on the implementation of the Incentive Scheme, the Committee enquired about the progress of the review and the measures to be taken by the FEHD to improve the Incentive Scheme so as to enable more food business operators to benefit from it.

4. The **Director of Food and Environmental Hygiene** responded to the Committee's enquiries in his letter of 12 December 2005, in *Appendix 33*. The Committee took note of the information provided therein.

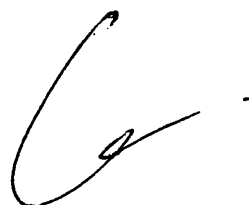
**SIGNATURES OF THE CHAIRMAN,
DEPUTY CHAIRMAN AND MEMBERS OF THE COMMITTEE**



Philip WONG Yu-hong
(Chairman)



TAM Heung-man
(Deputy Chairman)



LAU Kong-wah



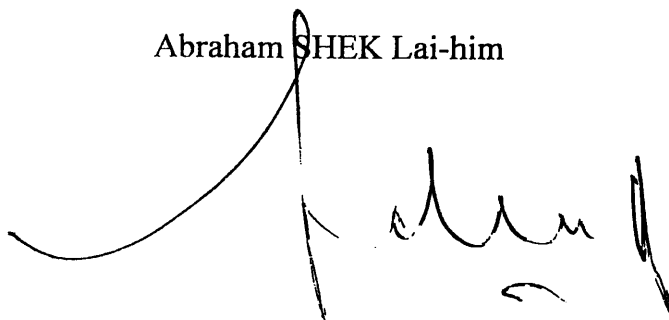
Andrew CHENG Kar-foo



Abraham SHEK Lai-him



Jeffrey LAM Kin-fung



Albert Jinghan CHENG

26 January 2006

**CHAPTERS IN THE DIRECTOR OF AUDIT'S REPORT NO. 45
DEALT WITH IN THE PUBLIC ACCOUNTS COMMITTEE'S REPORT**

**Director of
Audit's Report
No. 45**

**P.A.C.
Report No. 45**

<u>Chapter</u>	<u>Subject</u>	<u>Chapter</u>
3	Development of a site at Sai Wan Ho	1
5	Operation and training of the Civil Aid Service	2
7	Recovery of legal costs by the Legal Aid Department	3
8	The Government's efforts in developing sustainable systems to keep Hong Kong clean	4

**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.

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公務員事務局
香港中環雪廠街11號
中國政府合署西座



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20 January 2006

Clerk, Public Accounts Committee,
Legislative Council Building,
8 Jackson Road,
Central,
Hong Kong.
(Attn: Mr Colin Chui)

Dear Mr Chui,

**Follow-up to Public Accounts Committee Report No. 42
Hong Kong Harbour Fest**

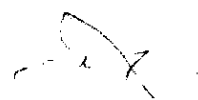
Thank you for your letter of 9 January 2006.

The disciplinary proceedings surrounding the Harbour Fest case, ordered by the Secretary for the Civil Service ("SCS") under section 10 of the Public Service (Administration) Order ("PS(AO)"), had been completed. In October 2005, when notified of the decisions made by SCS on the outcome of the proceedings including the level of punishment, the officer concerned appealed to the Chief Executive ("CE") under section 20 of the PS(AO) against SCS's decisions.

Having considered the propriety of giving an account of the disciplinary proceedings for public consumption before the appeal is ruled on one way or another, we decided to withhold action on reporting the outcome of the case to the Legislative Council.

The appeal to CE is currently being dealt with. We would give an account of the outcome of the disciplinary proceedings to the Legislative Council after the present appeal has been disposed of.

Yours sincerely,



(Christopher K B Wong)
for Secretary for the Civil Service

c.c. Director of Audit

本署檔號 OUR REF.: UGC/GEN/CON/103/1/4/2002(13)
來函檔號 YOUR REF.: CB(3)/PAC/CS(42&43)
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20 January 2006

Clerk, Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central, Hong Kong
(Attn: Mr Colin Chui)

Dear Mr Chui,

Follow-up to Public Accounts Committee Report No. 40A

**University Grants Committee funded institutions –
Governance, strategic planning and financial and performance reporting &
staff remuneration packages and stipends**

In your letter dated 11 January 2006, you asked for the current progress of nine specific items regarding the corporate governance, pay structure and leave administration of Hong Kong Baptist University, the Hong Kong Institute of Education and the University of Hong Kong since our latest report to Public Accounts Committee in October 2005. I am pleased to provide this in the attached update.

Yours sincerely,



(Michael V Stone)
Secretary-General

Encl.

c.c. Secretary for Education and Manpower (Attn: Miss Vivian Cheung)
Secretary for Financial Services and the Treasury (Attn: Mr Alan Au)

Progress of specified outstanding issues relating to corporate governance, pay structure and leave administration of Hong Kong Baptist University, the Hong Kong Institute of Education and the University of Hong Kong raised in the Annual Progress Report to the Public Accounts Committee Report No. 40A since October 2005

Corporate Governance of Institutions

The University of Hong Kong (HKU)

The HKU Court agreed at its meeting in December 2005 that the University of Hong Kong Ordinance should be amended so that the respective role descriptions of the Court and the Council therein would be consistent with their powers as set out in the relevant statutes. HKU intends to initiate the relevant legislative amendment process in 2006.

Hong Kong Baptist University (HKBU)

The HKBU Review Committee on the Governance Structure completed the first set of recommendations resulting from the ‘fitness for purpose’ review on governance structure, and the report was approved by the University Council in October 2005. The Council has accepted the recommendations and decided to establish an audit committee, and set up a risk management structure. On the former, HKBU reported that an Audit Committee was formally set up, with appointment of members and approval of terms of reference and membership composition, by the University Council in December 2005. In addition, HKBU Council decided that attendance records of Council members would be made available to relevant bodies upon request with justified grounds. The University would also enhance the Council’s role in strategic planning. The second part of the review covering other areas including periodic review of the effectiveness of the governing body, functions and membership composition of the HKBU Court, the relationship between the Court and Council, and effectiveness of the Senate, *etc.* is targeted for completion within 2006.

The Hong Kong Institute of Education (HKIEd)

The HKIEd Council decided at its meeting in November 2005 to postpone consideration of the proposed legislative amendments regarding the composition of the HKIEd Council and Academic Board, in view of the need to consider other more pressing issues. The HKIEd Council intends to reconsider the issue before mid-2006.

Pay Structure

HKIEd

The HKIEd Council studied the proposal on the titles and salary structure for non-academic staff as well as on the revisions of benefits for both academic and non-academic staff at its meeting in November 2005. A further review was subsequently decided upon and the HKIEd Council will consider a revised proposal before mid-2006.

HKU

An external consultancy was engaged to review the salary structure for non-academic staff. Recommendations are being drawn up, and the review exercise is expected to be completed before mid-2006.

Administration of Leave

HKIEd

HKIEd Council studied the proposed revisions of benefits for both academic and non-academic staff, which included a review of the vacation leave entitlement for staff, at its meeting in November 2005. A further review on some parts of the proposed revisions of benefits was subsequently decided upon and the HKIEd Council will be asked to consider a revised proposal before mid-2006.

HKU

HKU Council considered the problem of excessive leave entitlement in December 2005. As leave entitlement was part of the contractual agreement, the University considered that encashment of long leave followed by (the much reduced) compulsory annual leave was the most practical and effective way of addressing the problem. The University Council approved the launching of the third round of long leave encashment with a view to encouraging eligible staff members to move from the Long Leave Scheme to the Annual Leave Scheme.

香港海關

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海港政府大樓9樓



HONG KONG
CUSTOMS AND EXCISE DEPARTMENT
9/F, Harbour Building
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來函檔號 Your Ref. : CB(3)/PAC/CS(42&43)

本署電話 Our Tel. : 2852 3386

圖文傳真 Our Fax. : 2854 1959

20 January 2006

Clerk, Public Accounts Committee
(Attn : Mr Colin CHUI)
Legislative Council
Legislative Council Building
8, Jackson Road
Central
Hong Kong

Dear Mr Chui,

Follow-up to Public Accounts Committee Report No. 39

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

With reference to your letter of 11 January 2006, I would like to provide an updated progress on the trial scheme of "Red and Green Channels" in the following paragraphs for consideration of the Committee.

The Red and Green Channel

With effect from 1 November 2005, the Customs and Excise Department has implemented a new mode of Customs clearance service for passengers, the Red and Green Channel System (the System), at all entry points. Under the new mode, passengers arriving in Hong Kong will make Customs declarations by choosing to be processed either at the Red Channel or Green Channel. Passengers having items to be declared are required to choose the Red Channel, otherwise they can proceed to the Green Channel.

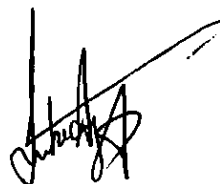
Publicity

Since October 2005, the Department has launched a publicity campaign to publicize the System through TV and radio APIs, posters, leaflets, and video clips shown in arrival flights. A press conference was held on 20 October 2005 to announce the implementation of the System. The public can also obtain information from the departmental website and telephone hotline.

Implementation Progress

From the review on the implementation of the System, it is observed that the majority of the passengers could quickly adapt to the new mode of clearance. Moreover, the daily duties and compounding penalties collected, dutiable commodities abandoned, and the number of prosecution cases have increased. This shows that the System has successfully achieved the objectives in facilitating passenger clearance and enhancing revenue protection on dutiable goods.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Luke H L Au Yeung', written in a cursive style.

(Luke H L Au Yeung)

for Commissioner of Customs and Excise

香港特別行政區政府

The Government of the Hong Kong Special Administrative Region

房屋及規劃地政局

香港花園道美利大廈



**Housing, Planning and Lands
Bureau**

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Fax : 2845 3489

本局檔號 Our Ref. () in HPLB(L) 35/05/206
CB(3)/PAC/CS(42&43)

來函檔號 Your Ref.

20 January 2006

Clerk to Public Accounts Committee
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central
Hong Kong

(by Fax : 2537 1204)

(Total Pages : 2)

(Attn : Mr Colin Chui)

Dear Mr Chui,

Follow-up to Public Accounts Committee Report No. 39

Small house grants in the New Territories

I refer to your letter of 11 January 2006, asking about the latest position on the above subject.

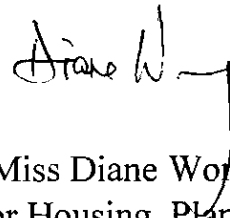
Review of Small House Policy

To take forward the review, we have set up an inter-departmental Steering Committee to look into various issues relating to the Small House Policy. This is a very complex subject which requires us to consider the social, economic and environmental development in the New Territories and the whole of Hong Kong since its introduction in 1972. We are studying the various issues and have yet to complete them for the formulation of preliminary proposals. We will continue our efforts and report progress as and when we are ready.

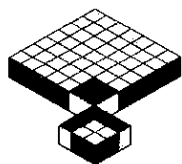
Streamlined Procedures for Processing Small House Applications

Cooperation of the Heung Yee Kuk is essential to the smooth implementation of the streamlined procedures for processing small house applications. We have been engaging in active dialogue and negotiation with the Kuk in respect of certain aspects under the proposed streamlined procedures, including the requirement for small house applicants to make statutory declarations, and the revised procedures for handling objections to small house applications. Discussion with the Kuk are still on-going. We will put in place the set of streamlined procedures as soon as the above matters are resolved.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Diane W.", with a long vertical line extending downwards from the end of the signature.

(Miss Diane Wong)
for Secretary for Housing, Planning and Lands



**Government
Property Agency**
政府產業署

31/F., Revenue Tower, 5 Gloucester Road, Hong Kong.
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本署檔號 Our Ref.: AD/OD/113(7)

來函檔號 Your Ref.: CB(3)/PAC/CS(42&43)

20 January 2006

Clerk, Public Accounts Committee
Legislative Council Building,
8 Jackson Road,
Central,
Hong Kong
(Attn. : Mr Colin CHUI)

Dear Mr CHUI,

Follow-up to Public Accounts Committee Report No. 41
To Kwa Wan Market, Basement

Thank you for your letter of 11 January 2006.

On 8 January 2004, a meeting was held among the Food and Environmental Hygiene Department, the Financial Services and Treasury Bureau, the Architectural Services Department (ArchSD) and the Government Property Agency (the Agency) to discuss, inter alia, how to put the vacant basement at the To Kwa Wan (TKW) Market to beneficial use. It was agreed that the vacant basement might not be suitable for office purpose, and that the Agency would liaise with other departments (e.g. the Customs and Excise Department (C&ED), the Leisure and Cultural Services Department (LCSD)) to see whether there would be interests in using the vacant floor for storage purpose.

After the meeting, the Agency had circulated the space for application by bureaux/departments in our quarterly exercise but no bid was received. In parallel, the Agency had also in January 2004 invited three departments, namely the C&ED, the LCSD and the Post Office, to consider using the basement of TKW Market for storage purpose. However, all of them declined our offer after site inspections. A summary of the views of the departments concerned and ArchSD is at Appendix A. It can be seen from

the comments, in particular those from ArchSD, that the basement is not suitable for use as office or for storage of objects which can be damaged by sewage. It is also noted that it is underneath a public market and there is presence of a large number of drainage pipes, and that the use of the basement is constrained by the limited headroom, unsatisfactory hygienic environment and the lack of lift service.

Since the publication of the Committee's Report in February 2004, the Agency has met 127 accommodation requests from government departments. A summary of such requests with details of the space provided is at Appendix B. The availability of the basement for allocation was covered by our regular circulation but no bid was received. In considering these accommodation requests from departments, the Agency had also, taking into account the observations at paragraph 3 above, assessed and considered if the basement could meet their requirements.

Yours sincerely,



(K.H. LAM)

for Government Property Administrator

c.c. Director of Audit
Secretary for Financial Services and Treasury
Director of Architectural Services
Director of Food and Environmental Hygiene

To Kwa Wan Market Basement
Summary of User Departments' Comments on Usage

Date	Departments	Comments
3.2.2004	Customs and Excise Department	They did not receive any bid for the vacant space.
3.3.2004	Leisure and Cultural Services Department	<p>They would not consider using the vacant space because :</p> <ul style="list-style-type: none"> a) the problem of rodents could not be completely eliminated and would pose serious hazard to the Film of Archive's valuable collections if the store were located inside a market building; and b) a high standard of air quality and relative humidity was required for a film store.
9.3.2004	Post Office	<p>The premises were considered not suitable because :</p> <ul style="list-style-type: none"> a) a lot of manholes and drainages were found; b) the clear headroom of 2.1 m was not sufficient for postal delivery; c) no designated parking space and loading platform were available; d) air-conditioning was not provided; and e) the premises could not be accessed by service / cargo lifts.
12.3.2004	Architectural Services Department	<p>It was technically feasible to convert the existing basement into an area for storage with an associated office.</p> <p>However, because of the condition of the market above, it was inevitable that there were quite a number of drainage pipes running inside the basement areas which might pose a risk of sewage leakage.</p> <p>Even the drainage system were properly maintained, there might be external factors like blockage of drains arising from market debris and subsequent flooding of the G/F wet market area, which might put the drainage system under heavily loaded condition and cause leakage.</p> <p>In many circumstances, clearance of blocked pipe was carried out at the cleaning eyes of the drainage pipes at this basement area.</p>

Summary of Government departments whose accommodation requests had been met between February 2004 and 17 January 2006
 2004年2月至2006年1月17日 政府部門獲編配物業摘要

Office / Community Accommodation 辦公室 / 社區地方

Department 部門	Building Name 大廈名稱	District 地區	Area (m ²) 面積 (平方米)
CENSUS AND STATISTICS DEPARTMENT 政府統計署	CANTON ROAD GOVERNMENT OFFICES BUILDING 廣東道政府合署	TSIM SHA TSUI 尖沙咀	189.8
			625.4
CIVIL AVIATION DEPARTMENT 民航處	PASSENGER TERMINAL BLDG (HKIA) 香港國際機場客運大樓	CHEK LAP KOK, LANTAU 大嶼山赤鱗角	40.0
			17.0
CIVIL ENGINEERING AND DEVELOPMENT DEPARTMENT	WAN CHAI TOWER 灣仔政府大樓	WANCHAI 灣仔	497.0
CORRECTIONAL SERVICES DEPARTMENT 懲教署	WAN CHAI TOWER 灣仔政府大樓	WANCHAI 灣仔	40.0
			29.0
CUSTOMS AND EXCISE DEPARTMENT 香港海關	DHL CENTRAL ASIA HUB DHL 中亞區樞紐中心	CHEK LAP KOK, LANTAU 大嶼山赤鱗角	406.5
	ENTRY GATE HOUSE OF CONTAINER TERMINAL 9 九號貨櫃碼頭	TSING YI 青衣	16.4
	HARBOUR BUILDING 海港政府大樓	CENTRAL 中環	24.4
	LO WU TERMINAL BUILDING 羅湖管制站	SHEUNG SHUI 上水	81.6
	MIDDLE ROAD MULTI-STOREY CARPARK 中間道多層停車場	TSIM SHA TSUI 尖沙咀	70.0
	NORTH DISTRICT GOVERNMENT OFFICES BUILDING 北區政府合署	FANLING 粉嶺	51.0
DRAINAGE SERVICES DEPARTMENT 渠務署	WESTERN MAGISTRACY BUILDING 西區裁判法院	WESTERN 西區	72.5
			975.3
			11.3
			665.3
ENVIRONMENTAL PROTECTION DEPARTMENT 環境保護署	TSUEN WAN GOVERNMENT OFFICES 荃灣政府合署	TSUEN WAN 荃灣	163.0
FOOD AND ENVIRONMENTAL HYGIENE DEPARTMENT 食物環境衛生署	HARBOUR BUILDING 海港政府大樓	CENTRAL 中環	58.0
	TAI PO GOVERNMENT OFFICES BUILDING 大埔政府合署	TAI PO 大埔	4.9
	TUEN MUN GOVERNMENT OFFICES 屯門政府合署	TUEN MUN 屯門	114.8
	YUEN LONG JOCKEY CLUB HEALTH CENTRE 元朗賽馬會健康中心	YUEN LONG 元朗	111.5
	GS-ADMINISTRATION WING 行政署	QUEENSWAY 金鐘	170.0
GS-EDUCATION AND MANPOWER BUREAU 教育統籌局	TSUEN WAN MULTI-STOREY CARPARK BUILDING 荃灣多層停車場大廈	TSUEN WAN 荃灣	615.8
GS-EFFICIENCY UNIT 效率促進組	KOWLOON GOVERNMENT OFFICES 九龍政府合署	YAU MA TEI 油麻地	100.0
HEALTH, DEPARTMENT OF 衛生署	WU CHUNG HOUSE 胡忠大廈	WANCHAI 灣仔	722.7
			197.2
HIGHWAYS DEPARTMENT 路政署	WANG CHEONG BUILDING 宏昌大廈	CHEUNG SHA WAN 長沙灣	914.5
HOME AFFAIRS DEPARTMENT 民政事務總署	MUI WO GOVERNMENT OFFICES 梅窩政府合署	MUI WO, LANTAU 大嶼山梅窩	74.0
	REVENUE TOWER 稅務大樓	WANCHAI 灣仔	263.0
	TSUEN WAN MULTI-STOREY CARPARK BUILDING 荃灣多層停車場大廈	TSUEN WAN 荃灣	90.0
	KIN MING ESTATE 健明邨	SAI KUNG/CLEAR WATER BAY 西貢/清水灣	1,040.2
	LEE ON ESTATE 利安村	SHA TIN 沙田	1,277.3
	LEI MUK SHUE ESTATE 梨木樹村	KWAI CHUNG/TSUEN WAN 葵涌/荃灣	866.0
	OI TUNG ESTATE 愛東村	SHAU KEI WAN 筲箕灣	805.0
	TSZ LOK ESTATE 慈樂邨	KOWLOON CITY/WONG TAI SIN 九龍城/黃太仙	1,121.0
	WAH YUEN BUILDING 華源大廈	SHEUNG WAN 上環	124.0
	CANTON ROAD GOVERNMENT OFFICES BUILDING 廣東道政府合署	TSIM SHA TSUI 尖沙咀	182.5
HONG KONG POLICE FORCE 香港警務處	IMMIGRATION TOWER 入境事務大樓	WANCHAI 灣仔	168.0
IMMIGRATION DEPARTMENT 入境事務處			744.0
INVEST HONG KONG 投資推廣署	ONE PACIFIC PLACE 太古廣場第一期	QUEENSWAY 金鐘	62.6
JUSTICE, DEPARTMENT OF 律政司	WESTERN MAGISTRACY BUILDING 西區裁判法院	WESTERN 西區	24.7

Department 部門	Building Name 大廈名稱	District 地區	Area (m ²) 面積 (平方米)
LABOUR DEPARTMENT 勞工處	EASTERN LAW COURTS AND GOVERNMENT OFFICE 東區法院大樓	SHAU KEI WAN 筲箕灣	165.0
	HARBOUR BUILDING 海港政府大樓	CENTRAL 中環	270.0
	NORTH POINT GOVERNMENT OFFICES 北角政府合署	NORTH POINT 北角	210.0
	QUEENSWAY GOVERNMENT OFFICES (LOW BLOCK) 金鐘道政府合署(低座)	QUEENSWAY 金鐘	310.0
	TAI PO GOVERNMENT OFFICES BUILDING 大埔政府合署	TAI PO 大埔	51.0
			124.0
	TSUEN WAN GOVERNMENT OFFICES 荃灣政府合署	TSUEN WAN 荃灣	53.0
			25.0
	TUEN MUN PARKLANE SQUARE 屯門柏麗廣場	TUEN MUN 屯門	47.7
	ADMIRALTY CENTRE 海富中心	QUEENSWAY 金鐘	270.8
LANDS DEPARTMENT 地政總署	NORTH POINT GOVERNMENT OFFICES 北角政府合署	NORTH POINT 北角	94.5
			238.5
	TAI PO GOVERNMENT OFFICES BUILDING 大埔政府合署	TAI PO 大埔	91.0
			9.0
	TSUEN WAN GOVERNMENT OFFICES 荃灣政府合署	TSUEN WAN 荃灣	311.0
	YUEN LONG GOVERNMENT OFFICES 元朗政府合署	YUEN LONG 元朗	508.0
LEISURE AND CULTURAL SERVICES DEPARTMENT 康樂及文化事務署	CORNWALL HOUSE 康和大廈	QUARRY BAY 鯉魚涌	1,046.7
	SAU MAU PING ESTATE, SAU MING HOUSE 秀茂坪一村	LEI YUE MUN 鯉魚門	34.0
	TAI PO COMPLEX 大埔綜合大樓	TAI PO 大埔	141.0
	OFFICIAL RECEIVER'S OFFICE 破產管理署	QUEENSWAY GOVERNMENT OFFICES (LOW BLOCK) 金鐘道政府合署(低座)	307.0
	POST OFFICE 香港郵政	BUTTERFLY ESTATE 蝴蝶村	50.0
RADIO TELEVISION HONG KONG 香港電台	CHOI MING COURT, CHOI MING SHOPPING CENTRE 彩明苑彩明商場	SAI KUNG/CLEAR WATER BAY 西貢/清水灣	89.0
	Olympia Plaza 國都廣場	NORTH POINT 北角	162.6
			51.5
	SHEK KIP MEI ESTATE 石硤尾村	SHEK KIP MEI 石硤尾	22.0
	TAI PO GOVERNMENT OFFICES BUILDING 大埔政府合署	TAI PO 大埔	181.0
	West Rail Mei Foo Station 西鐵美孚站	CHEUNG SHA WAN 長沙灣	119.0
	TSUEN WAN MULTI-STOREY CARPARK BUILDING 荃灣多層停車場大廈	TSUEN WAN 荃灣	87.6
	SOCIAL WELFARE DEPARTMENT 社會福利署	CHEUNG SHA WAN GOVERNMENT OFFICE 長沙灣政府合署	587.0
			596.0
	HARBOUR BUILDING 海港政府大樓	CENTRAL 中環	123.0
SOCIAL WELFARE DEPARTMENT 社會福利署	HAU TAK ESTATE 厚德村	SAI KUNG/CLEAR WATER BAY 西貢/清水灣	407.0
	KWAI HING GOVERNMENT OFFICES 葵興政府合署	KWAI CHUNG/TSUEN WAN 葵涌/荃灣	540.0
	MONG KOK GOVERNMENT OFFICES 旺角政府合署	MONGKOK 旺角	195.6
	NEW JADE GARDEN 新翠花園	CHAI WAN 柴灣	137.0
	NORTH DISTRICT GOVERNMENT OFFICES BUILDING 北區政府合署	FANLING 粉嶺	255.2
			145.0
			71.0
			74.0
	NORTH POINT GOVERNMENT OFFICES 北角政府合署	NORTH POINT 北角	83.8
	SAI KUNG GOVERNMENT OFFICES 西貢政府合署	SAI KUNG 西貢	120.0
	SAU MAU PING ESTATE, SAU MING HOUSE 秀茂坪一村	LEI YUE MUN 鯉魚門	264.0
	SOUTHERN CENTRE 修頓中心	WANCHAI 灣仔	198.0
	TAI HING GOVERNMENT OFFICES 大興政府合署	TUEN MUN 屯門	127.0
	TIN WAH ESTATE 天華村	YUEN LONG 元朗	220.0
			219.5
			107.0

Department 部門	Building Name 大廈名稱	District 地區	Area (m ²) 面積 (平方米)
	TIN YIU (2) ESTATE, YIU FUNG HOUSE 天耀二村耀豐樓	YUEN LONG 元朗	346.0
	TIN YIU (II) ESTATE 天耀(二)村	YUEN LONG 元朗	346.0
	TSUEN WAN MULTI-STORY CARPARK BUILDING 荃灣多層停車場大廈	TSUEN WAN 荃灣	385.0
			490.0
	TUEN MUN GOVERNMENT OFFICES 屯門政府合署	TUEN MUN 屯門	182.0
	WESTERN MAGISTRACY BUILDING 西區裁判法院	WESTERN 西區	31.2
			44.0
	WO CHE ESTATE 禾輦村	SHA TIN 沙田	398.6
	YAU MA TEI CARPARK BUILDING 油蔴地停車場大廈	YAU MA TEI 油蔴地	207.5
	LEE ON ESTATE 利安村	SHA TIN 沙田	1,250.0
			443.0
	OI TUNG ESTATE 愛東村	SHAU KEI WAN 筲箕灣	3,487.0
	SHUN LEE ESTATE 順利村	NGAU TAU KOK/KWUN TONG 牛頭角/靚塘	2,882.0
STUDENT FINANCIAL ASSISTANCE AGENCY 學生資助辦事處	CHEUNG SHA WAN GOVERNMENT OFFICE 長沙灣政府合署	CHEUNG SHA WAN 長沙灣	462.0
TRADE AND INDUSTRY DEPARTMENT 工業貿易署	HARCOURT HOUSE 夏慤大廈	WANCHAI 灣仔	993.2
	TRADE AND INDUSTRY DEPARTMENT TOWER 工業貿易署大樓	MONGKOK 旺角	75.0
			43.4
TRANSPORT DEPARTMENT 運輸署	YUEN LONG DISTRICT OFFICES BUILDING 元朗民政事務署大廈	YUEN LONG 元朗	45.0
	YUEN LONG GOVERNMENT OFFICES 元朗政府合署	YUEN LONG 元朗	30.0

Storage 貯物地方

Department 部門	Building Name 大廈名稱	District 地區	Area (m ²) 面積
ARCHITECTURAL SERVICES DEPARTMENT 建築署	SAI KUNG GOVERNMENT OFFICES 西貢政府合署	SAI KUNG 西貢	49.2
	WANG CHEONG BUILDING 宏昌大廈	CHEUNG SHA WAN 長沙灣	608.3
CIVIL ENGINEERING AND DEVELOPMENT DEPARTMENT 宏昌大廈	WANG CHEONG BUILDING 宏昌大廈	CHEUNG SHA WAN 長沙灣	64.2
ENVIRONMENTAL PROTECTION DEPARTMENT 環境保護署	WANG CHEONG BUILDING 宏昌大廈	CHEUNG SHA WAN 長沙灣	19.1
HIGHWAYS DEPARTMENT 路政署	WANG CHEONG BUILDING 宏昌大廈	CHEUNG SHA WAN 長沙灣	240.0
			100.0
			146.3
			105.4
IMMIGRATION DEPARTMENT 入境事務處	CANTON ROAD GOVERNMENT OFFICES BUILDING 廣東道政府合署	TSIM SHA TSUI 尖沙咀	62.3
			596.6
			326.5
	TUEN MUN GOVERNMENT OFFICES 屯門政府合署	TUEN MUN 屯門	26.8
JUDICIARY 司法機構	NORTH DISTRICT GOVERNMENT OFFICES BUILDING 北區政府合署	FANLING 粉嶺	495.0
LANDS DEPARTMENT 地政總署	CANTON ROAD GOVERNMENT OFFICES BUILDING 廣東道政府合署	TSIM SHA TSUI 尖沙咀	36.3
LEISURE AND CULTURAL SERVICES DEPARTMENT 康樂及文化事務署	CHEUNG SHA WAN POST OFFICE BUILDING & QUARTERS 長沙灣	CHEUNG SHA WAN 長沙灣	678.4
			502.0
	YU CHUI COURT 愉翠苑	SHA TIN 沙田	3,474.4
WATER SUPPLIES DEPARTMENT 水務署	IMMIGRATION TOWER 入境事務大樓	WANCHAI 灣仔	20.0



YOUR REF 來函檔號： CB(3)/PAC/CS(42&43)
OUR REF 本署檔號： L/M(4) to BD(CR)FIN/12 Pt.3
FAX 圖文傳真： 2840 0451
TEL 電話： 2626 1132

24 January 2006

Clerk
Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong.
(Attn. Mr Colin Chui)

Dear Mr Chui,

**Follow-up to Public Accounts Committee Report No.41
Buildings Department's efforts to tackle
the unauthorized building works problem**

I refer to your letter of 11 January 2006.

As requested, I attach herewith a Review of the Co-ordinated Maintenance of Buildings Scheme 2005 for your perusal. The Chinese version of the Review will be forwarded to you separately later today. Sorry for the late response.

Should you require further information, please feel free to contact me or Mr Paul Pant at 2626 1288.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Lam Siu-tong', written over a large, diagonal, double-lined signature line.

(Lam Siu-tong)
for Director of Buildings

c.c. Director of Audit

Review of Coordinated Maintenance of Buildings Scheme 2005 Implemented under a New Modality

Introduction

1. This paper reports on the review on the effectiveness of the new modality of the Coordinated Maintenance of Buildings Scheme (CMBS) 2005 and summarizes the findings thereof.

Background

2. The CMBS was introduced in 2000. The main objective of the CMBS is to promote owners' awareness of their responsibilities in building maintenance. The CMBS 2005 is implemented under a new modality by enlisting the assistance of the Hong Kong Housing Society (HKHS) to provide technical and financial support to the building owners. Under the new modality, the Buildings Department (BD) remains as the lead department which is responsible for coordinating and providing requirements on improvement works from the seven participating departments to the owners and focuses on law enforcement for building safety. HKHS would take up the role of coordinating the seven participating departments and the building owners in the carrying out of the building improvement works.

3. BD has targeted 150 private buildings in two phases under CMBS 2005. The first phase consisting of 30 buildings commenced in February 2005 and the second phase for the remaining buildings commenced in April 2005. There were 71 buildings without the establishment of an Owners' Corporation (OC) before the commencement of the scheme, the percentage of which is the highest amongst the CMBS operations.

The Review

4. An interim review was carried out in November 2005 to evaluate the effectiveness of the new modality of CMBS. The scope of the interim review is, however, limited by the information available and the tasks that can be completed at such an early stage of implementation of CMBS 2005

Findings

5. Compared with previous operations, there has been a substantial saving in BD's resources in CMBS 2005. Under the new modality, BD has reduced its staff input to about 50% of that under CMBS 2000. Some of the work has then been taken up by HKHS which provides technical support to the building owners in carrying out the improvement works and helps them to resolve difficulties encountered. As incentives to carrying out the improvement works, HKHS also provides interest-free loans and subsidies for procurement of third party insurance to eligible owners.

6. Formation of OC is important for better building management and maintenance. HKHS has made significant contributions in this aspect. Within the first 6 months of the operation of CMBS 2005, owners of 10 target buildings have agreed to form OCs and three of the buildings have been issued with the certificate of registration, whereas only one OC was formed during the first 6-month period under CMBS 2000. Owners of another 36 buildings have also shown keen interest in forming OCs. Moreover, owners of some remaining buildings are actively pursuing the improvement works under the joint efforts of HKHS and their property managers.

7. As compared with the previous operations, the number of target buildings in which the first meetings with owners' to kick-start the operation can be held within the first 6 months has increased from 30 (out of 200 target buildings) in the first two CMBS to 56 (out of 150 buildings) in the 2005 CMBS.

Way forward

8. The findings of the interim review indicate that the new modality has been effective in the saving of BD's resources in providing technical support to owners. It is also effective in strengthening the support to the owners and the coordination in the arrangement for the improvement works. It is anticipated that this will contribute to achieving the objective of CMBS in educating and encouraging building owners to take better care of their buildings, as well as the smooth completion of the improvement works within the 18-month programme of CMBS 2005. The progress of CMBS 2005 and the effectiveness of the new modality would be closely monitored. Depending on the achievement in the ensuing months, the programme of CMBS 2005 will be suitably adjusted as necessary.

Buildings Department
January 2006

電話 Tel: 2231 3133
圖文傳真 Fax: 2868 4707
電郵地址 Email: adnt@landsd.gov.hk
本署檔號 Our Ref: (111) in LD 1/2010/03 VI
來函檔號 Your Ref:



地政總署總部
**LANDS DEPARTMENT
HEADQUARTERS**

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.

香港北角清華道三十三號北角政府合署二十樓
20/F, NORTH POINT GOVERNMENT OFFICES
333 JAVA ROAD, NORTH POINT, HONG KONG

網址 Web Site: www.info.gov.hk/landsd

23rd January 2006

Clerk to the Public Accounts Committee
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central, Hong Kong.

(Attn. Mr. Colin Chui)

Dear Mr. Chui,

Follow-up to Public Accounts Committee Report No. 42

Acquisition and clearance of shipyard sites

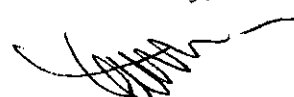
I refer to your letter dated 11th January 2006 addressed to the Director of Lands, Mr. Patrick Lau, who has asked me to reply on his behalf. The current position of the subject matters are:

- (a) Lands Department remains of the view that there will be practical difficulties in requiring the tenants of all types of short term tenancies to demolish their structures upon termination of the tenancies, and that there might be a need to exempt certain tenants from the self-demolition requirement. We are still looking into details of the matter with relevant bureaux and departments, and will report progress as and when we are ready.
- (b) The ex-lessee of the Penny's Bay shipyard site made an application to the Lands Tribunal for an order that there be a hearing to determine certain points of law as preliminary issues which include the issue of whether the costs of decontamination of

the site be taken into account in determining the ex-lessee's claim for compensation under the Foreshore and Sea-bed (Reclamations) Ordinance (Cap. 127). The President of the Lands Tribunal heard the said application on 16.1.2006 with judgment reserved.

2. The Chinese translation of my letter is being prepared. It will be sent to you when ready.

Yours faithfully,



(H.K. NG)

for Director of Lands

c.c. HPLB

D of J (Attn : Mr. Gerald Wu)



英基學校協會
ENGLISH SCHOOLS FOUNDATION

43B • Stubbs Road • Hong Kong
Tel: (852) 2574 2351 Fax: (852) 2838 0957
香港 • 司徒拔道 • 四十三號 B
電話 (852) 2574 2351 圖文傳真 (852) 2838 0957

20 January 2006

Your Ref : CB(3)/PAC/CS(42&43)

Mr Colin Chui
Clerk, Public Accounts Committee
Legislative Council Building
6 Jackson Road
Central
Hong Kong

Dear Mr Chui,

Follow-up to Public Accounts Committee Report No. 43
English Schools Foundation
Corporate Governance and Headquarters Administration and School
Administration

Thank you for your letter of 11 January 2006.

I am pleased to attach an updated progress report on the English Schools Foundation's actions in response to Public Accounts Committee Report No.43 together with a summary of the key areas of work which you have highlighted.

Yours sincerely,

Heather Du Quesnay
Chief Executive

Att

cc Director of Audit
Principal Assistant Secretary, Education and Manpower Bureau

**Progress Report
on the English Schools Foundation's Actions
in response to Public Accounts Committee Report No. 43**

(a) Review of the role of the Foundation Office

1. Background

1.1 An independent consultancy, Boyden Management Consulting, was commissioned to conduct a review of the Foundation Management Office in April 2005.

1.2 Boyden's procedure included :

- a review of key documents, including organisation charts, budgets, agendas and minutes of meetings;
- meetings with 39 individuals, including Principals, teachers, members of School Councils and the Executive Committee and Foundation Management office staff;
- focus group discussions with Principals.

2. Conclusions

2.1 Boyden's conclusion was :

- there is need for an FMO but its functions need to be repositioned in order to be more effective and efficient
- it would cost the schools more if they were to run the desired FMO functions individually; and
- a much more valuable or desirable FMO is possible through maintaining, or ultimately reducing its current size and spending.

2.2 The supporting arguments included :

- the need for such a large group of schools to have strategic direction and a vision for the future;
- the importance of a coherent and recognisable educational mission, shared among the schools and led by the Education Development TEam at the Foundation Management Office;
- the desirability of maintaining standardised terms and conditions of service for staff and offering a rich programme of professional development;
- the economies of scale which arise which arise from centralised services, and which allow the Principals and leadership teams of schools to give priority to educational issue.

2.3 They recommended two possible management structures, one for the long-term and one for immediate implementation. They emphasised the need for

certain new posts to improve strategic planning and management capacity but proposed a reduction in basic clerical and administrative posts. The cost of the management structure proposed for immediate implementation is HK\$42.1 million, a marginal (1.4%) increase over the current structure. The cost of the Foundation Management Office represents only 4% of the total budget of ESF, a similar proportion to 2004/05 despite an increase of 376 in student numbers.

3. Action Taken

3.1 Management Structure

The Senior Management Team has been re-structured to include a communications officer (to replace external consultantS) and a manager with responsibility for parent and student services including admissions and alumni.

3.2 New appointments have been made to the posts of Finance Director and Human Resources Director. Both of these postholders are very experienced managers, with a respected track record, mainly in private sector businesses.

3.3 The new Directors are re-structuring their departments in order to streamline them and introduce modern management practices and information technology systems. This work is partially complete and will be finalised in the next 3 months.

3.4 Administration of Staff Housing

A tendering process is in place to enable the administration of staff quarters to be out-sourced to the private sector. There is considerable interest from private sector companies.

3.5 Entertainment Allowances

A clear policy on Entertainment Allowances has been agreed by the Executive Committee which prohibits staff entertainment being charged to expenses. Claims are scrutinised rigorously and rejected if they do not conform to policy.

3.6 Budget Delegation

The decision has been made to increase to 15% the proportion of the schools' budget delegated to schools themselves. Further work will take place on decentralisation in the coming year.

3.7 Admissions

Central coordination of the admissions process has been introduced to allow for greater flexibility in the school zones. By adjusting slightly the boundaries of the zones we have been able to ensure that all children with English as a first language and non-Cantonese speaking children with a second language have offers of places for Year 1, as well as offering places to a significant number of English-speaking children who have some Cantonese. For Year 7, there are waiting lists which we are monitoring carefully from the Centre.

(b) Remuneration of Teachers

1. Background

- 1.1 The Executive Committee established a Remuneration Study Group in 2004 to gather information about the remuneration of English Schools Foundation teachers. Independent remuneration consultants were also commissioned to assemble the data and advise on an appropriate methodology.
- 1.2 It was decided that comparisons should be made between ESF and key other groups : international schools in Hong Kong; schools in other parts of Asia; state schools in England; and state schools in Australia.
- 1.3 The Remuneration Study Group published its findings in July 2005, and the Executive Committee instructed the newly appointed Human Resources Director and the Chief Executive Officer to develop proposals for a new remuneration package, which were issued for consultation in September 2005.
- 1.4 Following consultation, the Executive Committee agreed certain amendments to the package to meet some key concerns raised by teachers.

2. Action Taken

- 2.1 The revised remuneration package agreed by the Executive Committee on 25 October 2005 resulted in a reduction of HK\$ 68.9m or 9.2% to the teachers' remuneration package.
- 2.2 The detailed changes are as follows
- a reduction of 5% in basic pay from September 2006;
 - gratuity will be reduced by 5% from 2007;
 - a cash allowance of HK\$7,000 per month will be introduced to replace the housing allowance (quarters have not been offered to teachers since 2000);
 - the budget for Incentive Allowances will be reduced by 33% and new management structures will be introduced from September 2007 to enable the abolition of Incentive Allowances;
 - a Performance Management Scheme will be piloted from January 2006 and fully implemented from September 2006;
 - 5 compulsory Continuing Professional Development days will be introduced;
 - the supply teacher budget will be reduced by 45%;
 - overseas benefits such as return airfares and baggage allowances will be discontinued after one more contract (a small number of General Contract holders are excepted because of legal requirements);
 - steps will be taken to harmonise certain benefit such as housing and medical allowances to make them more fair.

3. Follow-Up

- 3.1 New contracts were issued on 30 November 2005 to 335 teachers whose contracts were due to expire on 31 August 2006. The new contracts included the revised remuneration package.
- 3.2 As of 20 January 2006, 292 teachers have accepted new contracts. A total of 88 have resigned either through choice or because they (or their partners) have reached retirement age. The turnover figure of 10.86% is only slightly in excess of that recorded at the same time last year (10.18%).
- 3.3 Throughout this process, teachers have continued to carry out their full range of duties in schools, including participating in continuing professional development; planning for the introduction of the International Baccalaureate diploma in Secondary Schools; and extra-curricular activities.

(c) **Corporate Governance**

1. Background

- 1.1 The Executive Committee established a task force to review the governance of ESF early in 2005.
- 1.2 The task force developed a framework of principles for reforming ESF governance, which was approved by the Foundation on 29 June 2005.
- 1.3 Since then a law draftsman has been commissioned to undertake the detailed drafting of an Amendment Bill, to be introduced to Legco as a private member's bill, to revise the English Schools Foundation Ordinance. The draftsman has also been working on accompanying Regulations.
- 1.4 We are currently consulting Foundation members and stakeholder groups, including parents, on the details of the Ordinance and Regulations. We expect to seek the final approval of the Foundation in the spring.

2. Key Features of ESF's Governance

2.1 Corporate Level

- the Foundation of 133 members is abolished and replaced with a Board of Governors numbering 25;
- the Executive Committee which is a source of confusion between governance and management, will be abolished;
- the Board has a majority of independent members and only 3 employee members plus the Chief Executive Officer as ex-officio and non-voting;
- 6 parent members will be elected by secret ballot by the body of parents;
- there will be 2 places for Legco members;

- the Board will have an Audit Committee, a Remuneration Committee (on which there will be no employee representation); and a Finance Committee;
- Advisory Committees will ensure that the views of all key stakeholder groups (School Council Chairmen, Principals, teachers and support staff) are taken into consideration.

2.2 Schools

- School Councils will be retained and their powers will be enhanced;
- the relationship of the powers of the School Council to those of the Board will be clearly described;
- the role, responsibilities and accountability of the School Principal will be described clearly.

2.3 General

Provision will be made for :

- a Code of Conduct to ensure that members of the Board, its Committees and School Councils, declare any interest;
- replacing members who do not attend regularly;
- regular public reports on educational standards and on the accounts to ensure transparency.
-

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
1.	Corporate governance					
	a. Conduct a review on the role of the Foundation Office including the need for its continued existence;	ESF agrees. Chief Executive Officer will review the management of the Foundation Office	Review: April-June 2005 for the Executive Committee (ExCom) to consider in June 2005, and implementation in September 2005.	ExCom		Completed 5 July 2005. Report was published in September 2005. Implementation in progress. New Management Team in place Jan 2006.
	b. Adopt measures to ensure that external members will constitute a majority at each of the respective meetings of the Foundation and the ExCom;	This is agreed and formed the basis of the work of the Governance Task Force.	Agreed in principle by Foundation Meeting on 9 December 2004.		Review of Governance : Majority of independent members will be required at Board Meetings. ExCom will be abolished.	Amendment Bill to Ordinance and Regulations being drafted. Majority of independents included.
	c. Issue reminders to the related organisations if the attendance rates of their representatives at Foundation meetings are low;	Agreed: reminder will be issued before Foundation meetings	By June 2005.		Review of Governance : Members who do not attend will be deemed to have resigned.	Incorporated in new Regulations Jan 2006.

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
	<p>d. Amend the Regulations of the English Schools Foundation to the effect that ESF staff members of ExCom would abstain from voting on matters concerning ESF staff benefits at its meetings;</p> <p>e. Consider repealing section 10(2) of The English Schools Foundation Ordinance so that subsidiary legislation in the form of regulations made under the Ordinance is required to be published in the Gazette and tabled in the Legislative Council (LegCo);</p>	<p>To be considered by Governance Task Force</p> <p>To be considered by Governance Task Force</p>	<p>Governance Reform Task Force to consider (b), (d) and (e) by April 2005 and to publish a consultation paper by May 2005. Foundation to consider the reform in June 2005.</p>	ExCom	<p>Review of Governance : Board members will be required to declare any interest and not to vote on a matter in which they are direct beneficiary.</p> <p>New Remuneration and Terms and Conditions Committee will not have staff members.</p> <p>Revised Regulations will be presented to LegCo at the same time as the amendments to the Ordinance. Expected timing : 2005-06 legislative session through a private member's bill to LegCo.</p>	<p>Code of Conduct incorporated in new Regulations Jan 2006.</p> <p>Incorporated in new Regulations 2006.</p> <p>New Ordinance omits Section 10(2).</p>

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
	<p>f. Ensure that its internal audit office is staffed by well qualified and experienced personnel reporting directly to the audit committee; and</p> <p>g. Required its internal audit office to prepare annual audit programmes, to be approved by the audit committee, for conducting reviews covering major and high-audit-risk activities of the ESF, including the ESF Educational Services Limited.</p>	The ExCom of the Foundation accepts that the ESF's governance should be reviewed with a view to ensuring that it is in line with the best practices	Actioned – Audit Committee approved by ExCom at the meeting held on 23 November 2004. The first meeting of the Audit Committee was on 7 December 2004. It has since met KPMG, the external auditor, and had substantive discussions with management on 17 December 2004 and 7 January 2005.	ExCom	Proposed Audit Plan (internal and external) was placed before Audit Committee in September 2005.	<p>(f) Done</p> <p>(g) Done</p>

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
2.	Financial Management a. Take action to reduce its net current liabilities; and b. Adopt a more prudent method of budgeting and avoid relying on bank overdraft.	<p>The ESF has stated that:</p> <p>(a) the ExCom of the Foundation will continue to carefully:</p> <p>(i) monitor ESF budgets and current liabilities;</p> <p>(ii) determine prudent limits to borrowing; and</p> <p>(b) no commercial organisation would deny itself access to credit which can help maximise value for shareholders.</p>	ExCom reviewed this recommendation when it reviewed the First Stage Estimates 2005-06 at the meeting of 22 March 2005.	ExCom	<p>Done. Each budget paper covers this.</p> <p>Ongoing</p>	Done.

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
3.	<p>Staff remuneration and recruitment</p> <p>a. The ESF should take into consideration Audit's findings on the remuneration of the teaching staff of the seven largest private international schools, and immediately conduct a review of the remuneration packages of its senior staff with a view to ensuring that they are broadly in line with those of similar posts in other local educational organisations;</p> <p>b. The membership of the RSG should not be drawn from ESF's own teaching and non-teaching staff;</p>	<p>The ESF has established a Remuneration Study Group (RSG) to conduct a review of remuneration packages in local international schools and in countries from which we recruit</p> <p>The ESF has stated that the remuneration packages of its senior staff:</p> <ol style="list-style-type: none"> 1. have been reviewed by its Pay Review Body; and 2. will be within the purview of its RSG <p>The ESF has stated that RSG's membership was agreed by ExCom and reflects the need for transparency for all stakeholders. ExCom will decide on pay levels.</p>	<p>(a) Actioned (regarding the establishment of RSG)</p> <p>RSG to report in July 2005.</p>	<p>RSG/ExCom</p> <p>ExCom</p>	<p>First stage review has been completed in July 2005. Further report will be made to ExCom in early autumn of 2005.</p> <p>Consultation with staff in September/October 2005. First stage of changes will be incorporated in contracts from November 2005.</p> <p>A new independent Remuneration Committee will be established.</p> <p>RSG will be invited to continue as a reference group only.</p>	<p>Remuneration review implemented Nov 2005.</p> <p>New Regulations specify independent Remuneration Committee Jan 2006.</p>

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
	c. The ESF should implement as soon as possible new remuneration packages on newly recruited teaching staff, and on existing teaching staff over a period of time, taking into account the effects of the new remuneration packages on their financial commitments; and	To be considered by RSG	(c) Actioned (regarding the establishment of RSG)	RSG/ExCom	To be implemented from November 2005 over a 2-year period.	Action taken Nov 2005 covering both new and existing staff.
	d. Asks the ESF to forward the report of the RSG to the Committee. The Committee will then invite the Director of Audit to review the report and to inform the Committee of his comments.	Agreed	RSG to forward their report to the PAC in June 2005.	RSG/ExCom		Consultant's and HR Director's reports are confidential. Details of the decisions on remuneration are included in the Progress Report to PAC of 20 Jan 2006.

Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
<p><u>Urges the ESF to:</u></p> <p>a. record, if given, the approval of the ExCom in its meeting minutes regarding extra payments to ESF senior staff upon their leaving the ESF;</p> <p>b. enter all minutes of ExCom meetings in its minute books;</p> <p>c. refrain from delegating to any person the authority to agree on the terms of cessation of a senior staff member without the approval of the ExCom; and</p> <p>d. ensure that the approval of the ExCom is obtained before making extra payments to its senior staff upon their leaving the ESF.</p>	<p>The ESF agrees with the audit recommendations in paragraph 4.32. The ESF has stated that:</p> <p>(a) in the past, the agreement of the Chief Executive of the ESF and the Chairman/ Vice-chairman of the Foundation was sought before making extra payments to ESF senior staff upon their leaving the ESF for contractual or confidentiality reasons; and</p> <p>(b) it will record the approval of the ExCom of the Foundation in its meeting minutes regarding extra payments to ESF senior staff upon their leaving the ESF, if this does not infringe legally binding agreements.</p>	<p><u>Actioned</u> – 17 December 2004.</p>	<p>ExCom</p>		<p>Done December 2004</p> <p>Done Dec 2004</p> <p>Done Dec 2004</p> <p>Done Dec 2004</p>

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
4.	<p>Staff housing and medical benefits</p> <p>a. Consider offering housing allowance to its staff instead of providing staff quarters;</p> <p>b. Strictly adhere to the maximum monthly rent entitlement of its staff; and</p> <p>c. Recommends that the ESF should formulate a policy and a plan for disposing of its surplus staff quarters.</p>	<p>The ESF agrees with the audit recommendations in paragraph 5.14. The ESF has stated that: it has taken action in respect of the audit recommendations in paragraph 5.14(a), (b) and (c). In the 2004-05 ESF financial year, three newly-appointed principals, whose predecessors were previously accommodated in ESF-leased quarters, have been allocated with ESF-owned quarters.</p> <p>The ESF has stated that: the ExCom of the Foundation will review carefully the audit recommendation in paragraph 5.31(a), having regard to the long-term needs of the ESF and the financial security conferred by the ownership of such fixed assets.</p>	<p>Audit recommendations in paragraph 5.14 (a) to (c) Actioned (for new staff).</p> <p>To submit a paper in respect of audit recommendations in paragraph 5.31(a) and (b) to ExCom by June 2005.</p>	<p>ExCom</p> <p>ExCom</p>	<p>Actioned for new staff</p> <p>Benefits for existing staff will be considered in the remuneration review.</p> <p>Revised data to be ready by December 2005.</p>	<p>Done</p> <p>Done</p> <p>Review to be undertaken following completion of Remuneration Review Nov 2005.</p>

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
5.	Entertainment expenses Recommends that the ESF should set up a new system so that only designated staff of the ESF may submit claims for reimbursement of entertainment expenses on a need basis.	The ESF has stated that: the ExCom of the Foundation will consider the audit recommendations in paragraph 7.13(a), (b) and (d) as part of a further review of entertainment expenses. The present ESF arrangement for setting annual individual budgets for entertainment expenses only applies to 22 ESF designated staff out of a total of 1 218 ESF staff.		HRD	Paper to be completed by October 2005	Policy agreed by Excom and published Dec 2005.

	Recommendations of PAC	Response from the ESF to PAC	Action Plan as prepared in May 2005	Responsible Party	Forecast Completion/Comments (Position as at end September 2005)	Complete
1.	<p>Strategic planning, budgeting and cash management</p> <p><u>Urges the ESF to require its schools:</u></p> <p>a. which do not have a bidding system for assessing the funding needs of their departments to adopt such a system for budget allocation purpose; and</p> <p>b. to establish formal policies and control procedures on virements of funds between budgets.</p>	Guidelines on school development planning will be produced through a working group to assist schools in their planning.	The Education Director (EDD) to establish a group to provide guidance by 30 June 2005.	EDD		Completed June 2005. Written guidance on development planning issued to Academic Committee on 17 June 2005
2.	<p>Human resources management, other income and support</p> <p><u>Urges</u></p> <p>ESF to devise a mechanism for awarding salary increments to its staff.</p>	The ESF agrees in principle with the audit recommendation and has stated that 74% of ESF staff are on the maximum incremental point.	Implementation of this recommendation is dependent on the future introduction of the proposed Performance Development Plans for staff.	HRD	To be considered as part of the Remuneration Plan.	Incentive Allowances to be abolished and Modern Management Structures to be introduced. Policy to be in place Jul 2006.

**Witnesses who appeared before the Committee
(in order of appearance)**

Hon Michael SUEN Ming-yeung, GBS, JP	Secretary for Housing, Planning and Lands
Ms Olivia NIP, JP	Deputy Secretary for Housing, Planning and Lands (Planning and Lands) 2
Mr Raymond CHAN	Senior Assistant Law Officer (Civil Law), Department of Justice
Mr LEUNG Chin-man, JP	Former Director of Buildings
Mr Marco WU Moon-hoi, JP	Director of Buildings (up to 8 December 2005)
Mr CHEUNG Hau-wai, JP	Deputy Director of Buildings (up to 8 December 2005)
	Director of Buildings (from 9 December 2005)
Mr MO Kim-ming	Assistant Director/New Buildings 1, Buildings Department
Mr Patrick LAU Lai-chiu, JP	Director of Lands
Mr John Corrigan, JP	Deputy Director of Lands (General)
Mr Gary CHEUNG Yiu-king	District Lands Officer (District Lands Office, Hong Kong East), Lands Department
Mr Bosco FUNG Chee-keung, JP	Director of Planning
Ms Christine TSE	District Planning Officer/Hong Kong, Planning Department
Mr YUE Chi-hang, JP	Director of Architectural Services
Mr Gary Crow	Chief Technical Adviser/Subvented Projects, Architectural Services Department

Ms Grace CHAN Lai-yuk

Senior Government Counsel,
Department of Justice

Hon Patrick LAU Sau-shing, SBS, JP

Mr Alex LUI Chun-wan

**Introductory Remarks by
Chairman of the Public Accounts Committee,
Dr Hon Philip WONG Yu-hong, GBS,
at the First Public Hearing of the Committee
on Monday, 28 November 2005**

Good afternoon, ladies and gentlemen. Welcome to the Public Accounts Committee's public hearing relating to Report No. 45 of the Director of Audit on the results of value for money audits, which was tabled in the Legislative Council on 16 November 2005.

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 those organisations which receive funding from the Government. The consideration by the Committee of the Director's reports involves gathering evidence relevant to the facts contained in the Director's reports, so that the Committee may 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. Before then, we will not, as a committee or individually, be making any public comment on our conclusions.

Following a preliminary study of the Director of Audit's Report No. 45, the Committee has decided, in respect of Chapter 3 of the Report on "Development of a site at Sai Wan Ho", to invite the relevant public officers and parties concerned to appear before the Committee and answer our questions.

I now declare the Committee to be in session.

**Written submission of 8 December 2005 by
Mr LEUNG Chin-man, former Director of Buildings**

- A. How the role of the Building Authority (BA) being different from that of the Director of Buildings (D of B)?
- B. Did the BA's decision result in any loss of land premium?
- C. On the question of the boundary of public interest
- D. On the understanding of "Independent of lease conditions"
- E. On the suggestion of the decision being unfair to other developers
- F. On the question of inconsistency

- A. How the role of the Building Authority (BA) being different from that of the Director of Buildings (D of B)?
- (1) If the BA determined a case in the capacity as the D of B, I would be acting as a civil servant. Obviously, a civil servant had a duty to protect the interests of the Government as the Vendor in a land lease (as it involved public funds) instead of processing the case in an impartial manner under the laws. If the buyer i.e. the other contracting party were an ordinary citizen, do we really consider it fair that the BA should lean in favour of the interests of the Government in exercising his statutory discretion?
- (2) A civil servant has to obey the orders of one's superior. But if the BA made his determination purely in accordance with his superior's instructions, it would be tantamount to the BA giving up his statutory discretionary power to his (i.e. D of B's) superior. This would mean that it was not the BA who was making the determination . As a matter of fact, the Building Ordinance does not empower the BA, in exercising his statutory discretion, to follow the instructions of the then Secretary for Planning, Environment and Lands!
- (3) It should, however, be noted that the BA should listen and take into account the views of his colleagues in the Buildings Department and other departments in the government. Those were for his reference only and ultimately the BA should act within the statutory perimeter of the Buildings Ordinance and make his determination accordingly.

- (4) As can be seen from the above, there should not be any confusion between the role of the BA and that of the D of B. Put it in another way, the two roles involve different responsibilities and powers and should therefore be strictly distinguished from each other.

B. Did the BA's decision result in any loss of land premium?

- (1) In essence, in selling land, the Government always aims at obtaining the highest sale price through the control mechanism of the land lease for the benefit of the Treasury.
- (2) If there are clear cut limitations laid down in the lease, for example: the site is classified as a Class A or B site, the clear designation of which strip of land as a street, the Public Traffic Terminus (PTT) should be counted for GFA, or any additional GFA or bonus GFA that the successful bidder may subsequently obtain from the BA under the Buildings Ordinance should be counted for GFA under the lease, or there is a ceiling on the maximum GFA to be built at the site, then owing to these specified limitations, the bidding price for the site would be relatively lower.
- (3) Conversely, if the lease does not clearly spell out limitations on the above-mentioned items (i.e. no specification of the ceiling of the GFA to be developed, no indication that the PTT should be counted for GFA nor any expression as to whether the exempted area that may be granted by the BA in future would be charged for additional premium etc.), this would mean that such an "open-ended" lease would provide an opportunity for the successful bidder to apply to the BA for bonus GFA or exemption of GFA under the Buildings Ordinance in future. This would make the bidders offer a relatively higher premium for the site.

- (4) According to my understanding, the Lands Department would take into account the different circumstances of each site and set the most appropriate strategy so as to maximise the receivable land premium.
- (5) The land lease strategy in the present case was to adopt the latter (i.e. “open-ended”) strategy. In making the terms of the land lease in this case, the Lands Department had anticipated the possibility of the BA’s granting the exemption of the PTT for GFA calculation etc. (see para. 6.24 of the Director of Audit’s report). There is therefore no question of the BA’s decisions resulting in any loss of land premium. Conversely, if the lease clearly specified the relevant limitations, the premium offered by the bidders would be relatively lower.
- (6) In the light of the above, the statement in para. 6.25 of the Director of Audit’s report that the exemption of the PTT for GFA calculation under the Buildings Ordinance has a financial implication of \$125 million is a hypothetical statement.

C. On the question of the boundary of public interest

- (1) Members of the PAC said that public funds must be a matter of public interest and why not someone as the BA or what take that into account.
- (2) Firstly, I would like to point out that the BA is a law enforcement agent. In enforcing the law, it is neither possible nor right for the BA to act in favour of the government whenever the works involve the government and hence public money. If the other party is just an ordinary citizen, it would be extremely unfair to the latter if the BA should act in favour of the government merely because public money is involved!
- (3) The BA is a law enforcement agent. His power is derived from the Buildings Ordinance. In exercising his statutory discretion, he can only make his determination on individual cases within the perimeter prescribed by the Buildings Ordinance. He cannot go beyond this statutory perimeter to deal with matters falling outside the ambit of his power as the BA (such as land premium rights). As a matter of fact, land premium rights are handled by another department i.e. the Lands Department. This is the prescribed boundary within which the BA considers in the matter of public interest.
- (4) I therefore consider that there should always be a boundary in the consideration of public interest. In exercising his statutory discretionary power, he must exercise his power fairly and in accordance with the prescribed limits of the Buildings Ordinance and should not act in favour of either one of the contracting parties even though the government happens to

be one of the contracting parties and public money is involved. This is another matter falling outside the prescribed boundary of the Buildings Ordinance (So it is wrong to and one cannot take an indiscriminate approach and conclude right away that it is public interest since public money is at stake). The function of the BA is to enforce the law while the Lands Department has the function to obtain revenue for the government. They operate from different positions.

- (5) I would like to respond clearly here to the question made by two Council members Mr. Jeffrey Lam and Mr. Cheng Kar-foo regarding the concerns raised by the Planning Department's representatives at the BAC meeting on 22 October 2001 over the visual impact that would be caused by the increase in the bulk and height of the development as a result of the decision of exemption of the PTT for GFA calculation. This was also another matter falling outside the ambit of the BA's authority and so the BA should not consider it either. As pointed out at the BAC meeting on 22 October (para. 5(f)), this was a matter that the Planning Department should deal with under the lease conditions or prescribe under the Outline Zoning Plan. The view at the meeting was that it was not appropriate to address matters which should be dealt with by the Planning Department under the Buildings Ordinance. This is, therefore, another boundary issue, that is, the BA cannot go beyond the powers conferred to him under the Buildings Ordinance.

- (6) I would like to supplement one other point. Lighting and ventilation are matters of public interest that should be dealt with under the Buildings Ordinance. But these questions should be addressed by the Buildings Department in the process of the approval of the plans and if they were not up to the prescribed requirements, the case would not have been referred to the BA for determination at all.

D. Independent of lease conditions

- (1) When I meant by saying that one should not “consider” the lease conditions, is actually very clear i.e. one should not take the lease conditions (which only define the relationship of the contracting rights of the two contracting parties) themselves as a relevant factor, not to mention as a key factor as said by Mr. Chan. This is the real difference of views between me and Mr. Chan.
- (2) As a matter of fact, I did, throughout the entire process, make detailed reference to the lease conditions with the aim of finding out if there were any facts that could turn out to be relevant factors. But whether such facts were relevant factors or not depended on the facts themselves and not because they originated from the lease conditions.
- (3) I submit attached to this note a speaking note on this matter for record purpose.

D. On the understanding of “Independent of lease conditions”

- (1) A government land lease is just like any private land sale contract. The duties and rights of the contracting parties are defined by the lease conditions. In exercising his statutory discretionary power, the BA must not side with either of the contracting party. He should not therefore consider the lease conditions as relevant or even key factors in order to protect the interests of the government as one of the contracting parties.
- (2) However, the above is not equivalent to saying: the BA needs not make reference to the lease conditions. In fact, apart from the lease, he should look at all the evidence, information and documents laid before him so as to aid the exercise of his discretionary power under the Buildings Ordinance. If he finds some information or facts in the lease conditions, he should of course consider and decide whether those are relevant factors or not. Nonetheless, we should bear in mind that whether these facts are relevant or not has nothing to do with their source (i.e. the lease conditions in this case).
- (3) The fact is that at my testimony at the PAC meeting on 1 December, I already explained how I made detailed reference to the lease condition concerning the requirement for the construction of the PTT. According to the lease, the developer was required to build the PTT. This is a fact. That is to say whether I approved the application for exemption or not, the developer was still required to build the PTT. Was this fact a relevant factor of consideration to grant exemption or not? There were different views

expressed at the BAC meeting. I therefore asked for advice from the Department of Justice on this specific question. The reply given to me by the D of J was: “The control imposed by the Buildings Ordinance is independent of the lease conditions” (para. 6.18 of the Chinese version of the Director of Audit’s report translated “independent of” as “unrelated”). Therefore, (I said) in exercising his statutory discretion, the BA needed not “consider” the fact that the requirement for the PTT to be built was already in the lease. What I meant by saying this at the testimony was exactly the same as I explained in the above paragraphs.

- (4) I had also carefully considered the difficulty likely to be faced by the Lands Department in charging additional premium as a result of the lack of a ceiling on the total GFA to be developed under the lease. However, as the BA cannot lean in favour of the interests of the government as one of the contracting parties, my conclusion was that this was an irrelevant factor.
- (5) In simple terms, in exercising his discretionary power, the BA should look at the matter independently of the lease conditions themselves, that is, there is no need to consider the contractual relationship as regards duties and rights between the two sides. Nonetheless, the BA should consider whether any fact revealed by the lease conditions or any other document is a relevant factor in the exercise of his discretionary power.

E. On the suggestion of the decision being unfair to other developers

- (1) Firstly, in its reply to the Lands Department in 1999 and November 2000, the Buildings Department (BD) clearly advised that the PTT would be counted for GFA calculation under section 23(3)(a) of the Building (Planning) Regulations (B(P)R), but did not say the BA would include the PTT in the GFA calculation when exercising his discretion under section 23(3)(b) .
- (2) Although it was the belief of some colleagues of the BD that the general practice was not to exempt PTTs from the calculation of GFA, is it really true that those developers intending to bid for the site had such an understanding "in their minds"? The fact is that in some past cases, PTTs had been exempted from GFA calculation. Developers, therefore, do know that the BA can exercise his discretion to exempt PTTs from GFA calculation under section 23(3)(b). I have evidence in saying this. I have here a letter enquiring about this question from a certain big developer addressed to the Director of Lands before the bidding of the site. This letter clearly mentioned: "In a no. of other cases, the public transport interchange & coach terminus are often exempted from GFA calculation". This clearly indicated that developers do understand that the BA can use his discretion to approve exemption of PTTs under section 23(3)(b).
- (3) The fact of the matter is that in his reply to that particular developer, a colleague of BD (Post meeting note: it should be Lands Department) only mentioned that PTTs should be calculated for GFA under section 23(3)(a) of

the Building (Planning) Regulations without mentioning whether the BA would grant exemption under section 23(3)(b). The letter further pointed out that the conditions of sale do not specify a maximum GFA. This implied that a successful bidder for the site could make an application to the BA afterwards to see if after the triggering of section 23(3)(b), the BA would exercise his discretion to approve an exemption. According to my information, BD (Post meeting note: it should be Lands Department) gave the same verbal answer to other developers making similar enquiries.

- (4) It can be seen from the above that the BD had not misled other developers or potential bidders for the site, causing unfairness to them or leading to potential litigation.

F. On the question of inconsistency

- (1) I would still like to point out that the advice given by the BD before the sale of land was based on the information provided to the BD at that time but after the sale of land, the BA, in examining a formal application with concrete details put before him, would need to consider the merits of the case afresh. Even if it was found after detailed verification that the advice earlier given by the BD was not entirely applicable, that advice should not be adhered to rigidly. Quite the contrary, the application should be considered according to the rules under the Buildings Ordinance.
- (2) On the question as to how I applied the principle of "public interest" under section 23(3)(b) of the Building (Planning) Regulations in exercising my discretionary power
 - (a) All of us would want to ask the question: Since the PTT concerned would be built as required by the lease, that would already meet the requirement of public interest. If we were to grant exemption of the PTT for calculation of GFA, should we not ask the question: Would such exemption generate "additional" public interest so as to meet the principle of public interest in this case? But let us look at the facilities which the BA may grant exemption from GFA calculation under section 23(3)(b) of the Building (Planning) Regulations, such as private car spaces refuse storage chambers, telecommunication facilities for the building etc. Even though all these facilities were required to be built

under the lease, the BA would invariably grant exemption in these cases in the past. This shows that the granting of exemption for these facilities was not because they would generate additional public interest but because they were regarded as beneficial to public interest. But it was possible that the BA had used this "additional public interest" test in processing applications for PTT exemption in some past cases, leading to an understanding within the BD (which, however, has not been conveyed to outsiders) that PTTs should not be exempted for GFA calculation. However, in the course of examining this case, after detailed arguments amongst BD colleagues and according to the above-mentioned advice of the Department of Justice (i.e. the requirement for the PTT to be built under the lease was not a relevant consideration), the conclusion we arrived at was that the test of "additional public interest" was not really appropriate. This standard was therefore not adopted in the present case.

- (b) Apart from the above, there was another opinion that the test of public interest could be: If the facility in question came within the scope of section 23(3)(b), the public interest test could be met if the facility did not go against public interest? But I did not think this approach was appropriate. For example, some developers sometimes applied for the provision of additional car parking spaces for commercial or letting purposes. These extra car park spaces were merely commercial facilities (subject of course to the approval of the Transport Department). They

caused no harm to public interest. But I considered that they only satisfied and were confined to commercial interest and did not meet the above-mentioned positive test of public interest per se. That was why we should not grant exemption (for such extra commercial carparking spaces).

- (c) The conclusion of the above comparative study was that we should not use either the "additional public interest test" or the "not going against public interest" test but whether the facilities designated under section 23(3)(b) were beneficial to public interest. Obviously, in this particular case, the PTT provides the residents in the development as well as in the nearby district a public transport facility, bringing convenience to them. It is beneficial to public interest and should be granted exemption.

- (3) Therefore, the actual situation, as explained above, is that it is an over-simplification to say that there is inconsistency between the advice given by the BD before the sale of land and the BA's determination on an actual application after the sale of land. The suggestion that there has been an "inconsistency of views on the part of the BA before and after the land sale" is therefore incorrect.

**Written submission of 31 December 2005 by
Mr LEUNG Chin-man, former Director of Buildings**

- (1) At the hearing of the PAC on 19 December 2005, some Legco members asked Professor Lui questions about the opinions he gave at the two meetings of BAC (for example, the question of benefit of doubt and the question of unfairness). Some Legco members went further to ask Professor Lui whether he found himself playing a very special role or exercising a great deal of influence and also suggested that Professor Lui's point about the benefit of doubt had been given great weight. I would like to clarify that if the suggestion was that the then BA made his decision under the great influence of the views of Professor Lui, then it is factually incorrect. I would like to invite PAC members to refer to the reasons for the BA's decisions as recorded in the minutes of the two BAC meetings. Legco members will then note that those reasons did not include the argument of Professor Lui (i.e. the benefit of doubt should go to the applicant).
- (2) Professor Lui's views were merely for the reference of the then BA. They had never been the determining factor on the decision of the latter in this case.

香港特別行政區政府
The Government of the Hong Kong Special Administrative Region

房屋及規劃地政局

香港花園道美利大廈
九樓



Housing, Planning and Lands Bureau
9/F, Murray Building
Garden Road, Hong Kong

本局檔號 Our Ref. HPLB(CR)(PL) 1-150/34 (2005) Pt. 6 電話 Tel.: 2848 6288

來函檔號 Your Ref. 傳真 Fax : 2869 0167

12 December 2005

Ms. Miranda Hon
Clerk to Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road, Central
Hong Kong

Dear Ms Hon,

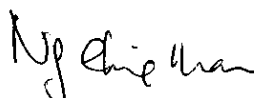
**The Director of Audit's Report on the
Results of value for money audits (Report No. 45)**

Chapter 3 : Development of a site at Sai Wan Ho

I refer to your letter dated 9 December 2005.

In respect of the written submission by Mr CM LEUNG, the departments concerned have provided some factual clarifications and corrections to the information contained in the written submission. They are attached at Annexes 1 to 5. Since the written submission by Mr LEUNG contains his opinions expressed to the Public Accounts Committee, it is not appropriate for the departments to make any comment on them.

Yours sincerely,



(Parrish Ng)

for Secretary for Housing, Planning and Lands

c.c.	DB	(Attn : Mr Cheung Hau-wai)	[Fax : 2868 0793]
	D of Lands	(Attn : Mr Patrick Lau)	[Fax : 2525 4960]
	D of Plan	(Attn : Mr Bosco Fung)	[Fax : 2877 0389]
	D of ArchS	(Attn : Mr Yue Chi-hang)	[Fax : 2810 7341]
	D of Audit	(Attn : Mr Benjamin Tang)	[Fax : 2583 9063]
	SFST	(Attn : Mr Martin Glass)	[Fax : 2523 5722]
	D of J	(Attn : Mr Raymond Chan Ms Grace Chan)	[Fax : 2136 8277]
	Mr Leung Chin-man		[Fax : 2870 1737]

Annex 1

Buildings Department's Response to Mr CM Leung's Written Submission to the PAC (ref: PAC/R45/CH3/GEN13):

1. Regarding paragraph E(1) of the written submission, it is confirmed that on 18 November 1999, the Buildings Department advised the Lands Department in writing that the Government Accommodation should be included in gross floor area calculation under Building (Planning) Regulation 23(3)(a). The Buildings Department cannot trace any written records about advice given to the Lands Department in November 2000. According to information provided by colleagues of District Lands Office/Hong Kong East, their office had phoned the then Chief Building Surveyor/Hong Kong East to enquire about the relevant question.
2. Regarding paragraph E(3) of the written submission, we believe when Mr CM Leung was referring to the reply given to the developer made by Buildings Department, he was actually referring to the reply made by the "Lands Department".

Lands Department's Response to Mr CM Leung's Written Submission to the PAC (ref: PAC/R45/CH3/GEN13):

1. Regarding paragraph (1) in Part B of the written submission, the Department wishes to clarify that the main objective and function of the conditions of sale or what is commonly known as the lease are to ensure that the grantee will develop the site in accordance with the stipulated use and provide certain facilities, and to bind the grantee not to undertake activities or uses and build facilities not permitted under the lease. The lease itself is neither a mechanism nor an instrument for seeking the maximum premium in a land sale.
2. Paragraph (4) in Part B of the written submission stated that Lands Department will formulate the most appropriate strategy to obtain the best land sale revenue taking into account the individual circumstances of each site. The Department wishes to clarify that the process of formulating the land sale conditions by the Government does not involve a strategy. The Government will consider how to implement through the land sale conditions the prevailing planning intention embodied in the Outline Zoning Plan in which the site is located. Within this established framework, we will try our best to realize the highest premium from the sale of the site. It is not up to Lands Department to take the initiative in determining whether the lease should be "open" or otherwise. The decision is based on planning intention.
3. Part E of the written submission refers to a written reply from Buildings Department to a developer. Actually it was Lands Department who replied. Copies of the letter from the developer to Lands Department and our reply have already been forwarded to the Chairman and members of the Public Accounts Committee on 9 December 2005.

Annex 3

Planning Department's Response to Mr CM Leung's Written Submission to the PAC (ref: PAC/R45/CH3/GEN13):

Planning Department has no comment on Mr LEUNG's written submission.

Annex 4

Architectural Services Department's Response to Mr CM Leung's Written Submission to the PAC (ref: PAC/R45/CH3/GEN13):

Architectural Services Department has no comment on Mr LEUNG's written submission.

Department of Justice's Response to Mr CM Leung's Written Submission to the PAC (ref: PAC/R45/CH3/GEN13):

1. Regarding paragraph (1) of Part D of the written submission, Mr. Leung's comment was “不應把地契合約條款本身視為一個相干的因素” or key factor. We are not clear about Mr. Leung's meaning of “相干的因素”. If Mr. Leung was of the view that lease condition was an “irrelevant factor” (無關因素) and should not be taken into consideration as one of the factors, we disagree with such view. We opine that lease condition was one of the relevant factors (a relevant factor). In exercising the discretionary power provided under B(P)R23(3)(b), the Building Authority should take into consideration such relevant factor.
2. According to paragraph (2) of Part D of the written submission, as a matter of fact Mr. Leung had considered the lease condition. This accorded with our understanding. With reference to Buildings Department's paper (BAC 22.10.2001 minutes of meeting) and the meetings between the Buildings Department and our government counsel, we fully understood that the Building Authority at that time had regarded the lease condition as one of the relevant factors (a relevant factor) and had considered it. As to the importance of such factor and the weight to be attached to such factor in the exercise of discretionary power, it should be decided by Mr. Leung as the Building Authority.
3. In relation to “independent of lease conditions”, our responses are as follows:
 - (a) As stated in paragraph 3(d) of our memo dated 22.10.2001, we concurred with Buildings Department's response to the developer's Authorised Person that “The exercise of development control via the B.O. is independent of the lease conditions in every case. It is

undesirable that the Buildings Department should be compelled to follow the lease conditions in general.”

We agreed that:

- (i) Building development is controlled under the Buildings Ordinance and the lease conditions;
 - (ii) These two controls operate independently;
 - (iii) These two controls are not mutually exclusive;
 - (iv) The Building Authority’s exercise of discretionary power should not be bound by the lease conditions.
- (b) We opine that lease condition was one of the relevant factors that the Building Authority should take into consideration. As to the importance of this relevant factor and the weight to be attached to this factor, these should be decided by the Building Authority. The Building Authority should exercise its discretionary power as the public interest required.
- (c) According to Mr. Leung’s written submission, Mr. Leung had considered the lease condition including the developer’s obligation to construct the public transport terminus (PTT) under the lease. We opine that the lease condition and the developer’s obligation to construct the PTT were relevant factors. Accordingly, in the exercise of discretionary power the Building Authority should take these relevant factors into consideration. Our legal advice dated 22.10.2001 did not say (nor should it be understood as) “不應考慮地契上已列明須興建巴士總站這規定”.
- (d) Regarding paragraph (4) of Part D of Mr. Leung’s written submission, Mr. Leung was of the view that “收取補地價的困難這個情況” was not a “相干因素”. If “相干因素” means “有關因素”, we have reservation on Mr. Leung’s conclusion. We have never received any instruction to provide legal advice in this respect. However, Mr. Leung’s written submission indicated that as a matter of fact Mr. Leung had taken into consideration such relevant factor.

- (e) We opine that lease condition was one of the relevant factors that should be taken into consideration. However, in the exercise of discretionary power under the Buildings Ordinance, the Building Authority should not be bound by the lease conditions.
- 4. Regarding paragraph (2) of Part F of Mr. Leung's written submission, we would like to clarify that in our memo of 22.10.2001 we did not say “無須考慮地契須興建公共交通總站的規定”. At that time, we knew Mr. Leung had regarded “地契須興建公共交通總站的規定” as one of the relevant factors that should be taken into consideration.

香港特別行政區政府
The Government of the Hong Kong Special Administrative Region

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**Housing, Planning and Lands
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Garden Road, Hong Kong

本局檔號 Our Ref. HPLB(CR)(PL) 1-150/34 (2005) Pt. 6

Tel. No.: 2848 6297

Fax No.: 2899 2916

來函檔號 Your Ref.

7 December 2005

By fax

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. 45)**

Chapter 3 : Development of a site at Sai Wan Ho

Thank you for your letter of 2 December 2005.

I would like to provide the requested information as follows :

- (a) The Housing, Planning and Lands Bureau (HPLB) sets the general policies relating to planning, land and building aspects, while the Planning Department (PlanD), Lands Department (LandsD) and Buildings Department (BD) perform their duties in accordance with such policies and the relevant legislation. HPLB does not involve itself in the daily operation of the departments and will not interfere with the exercise of power by department heads under the relevant legislation. However, should the concerned departments encounter issues bearing policy implications, they would consult HPLB.

HPLB recognizes the importance of coordination and interface among the departments involved in the land and building development approval process. Mechanisms at various levels with different degree of involvement from HPLB are in place for this purpose. These include the following channels –

- apart from resolving relevant issues through correspondence, HPLB will also hold housekeeping meetings, Four Directors' meetings (BD, LandsD, PlanD and Civil Engineering and Development Department) to resolve such issues; and
- there are also dedicated forums for resolving differences amongst departments, such as the Task Force on Re-engineering the Development Process and the Working Group on Reviewing the Property Development Approval Process.

The Task Force on Re-engineering the Development Process, set up in January 2002, is chaired by the Director of Buildings with participation of senior officials from BD, LandsD and PlanD. It aims to map out an implementation plan to streamline the process in obtaining planning, lands and building approvals. HPLB has set up the Working Group on Reviewing Property Development Approval Processes since October 2004. The main function of the Working Group is to consider matters relating to the overall simplification and rationalization of the property development approval procedures, particularly those requiring the Bureau's steer and coordination.

We will continue to co-ordinate the work among departments through the above mechanisms and channels in order to enhance communication and cooperation. We will keep under review these arrangements and make improvements from time to time.

- (b) For the Sai Wan Ho site (the Site), a notional scheme of a mixed residential/commercial/GIC development was worked out by the Planning Department in 1998 based on various planning assumptions. Based on the estimated domestic GFA of the notional scheme (85,720m²) and an assumed average flat size

(85m²) with reference to an adjacent residential development (i.e. Les Saisons) then under construction, the number of flats estimated in the notional scheme was 1,008 units. Taking account of the then estimated average number of persons per occupied flat (PPOF) of 3.5, the estimated planned population of the Site was 3,528.

The notional scheme was only to provide a rough estimate based on a set of planning assumptions. The developer had the flexibility to determine the appropriate mix of residential and commercial GFA and the mix of flat sizes to meet the market demand. In the Sai Wan Ho development, the developer has chosen not to provide commercial floor space within the Site and the average flat size has also turned out to be smaller (67m²). With the increase in total domestic GFA, the number of flats provided on the Site has increased to 2,020 units.

With the continuing trend of declining household size, the estimated average PPOF has decreased over the years. The latest planning estimate is 2.58 persons per occupied flat for the subject development, resulting in a population of about 5,212. There is an increase of 1,684 persons compared with the original estimate of 3,528 in 1998.

It should be noted that if the developer decided to build fewer but larger flats with the same domestic GFA, the population in the development would be less.

(c) Provision of community and educational facilities

While there is an increase in population on the Site as compared with the original estimated population in the notional scheme, there is a gradual reduction in the overall population in the Quarry Bay district. The district had a population of 133,522 in 2001 and the latest estimated planned population for the district is 125,200 by 2016, the major reason being that there is a trend of declining household size.

Based on the Hong Kong Planning Standards and Guidelines (HKPSG), the planned provision of community and educational facilities should be adequate to meet the HKPSG requirements with the exception of secondary schools and some youth and elderly facilities.

In terms of the provision of secondary schools, the shortfall of secondary schools could be met by the provision in other adjoining districts, such as North Point, and this is in line with the HKPSG. As regards the youth and elderly facilities, a GIC site of about 2,000m², located in the vicinity of the Site, has been reserved for the provision of community facilities to meet the district's demand. Moreover, as these facilities are small scale and premises-based, they could be accommodated within private commercial or commercial/residential buildings.

A table showing the HKPSG requirements and the existing and planned provisions of community and educational facilities in Quarry Bay district is at **Annex A**.

-
- (d) A response will be provided separately and as soon as possible.
 - (e) Government Accommodation is a term used in the Government lease. It refers to facilities or accommodation to be provided by the lessee and assigned to the Government when called upon to do so as required under the lease. It could be for various uses - domestic flats with associated car parks, schools, kindergartens, residential care homes for the elderly, social services centres, open space, PTT etc.

Regulation 23(3)(a) of the Building (planning) Regulations (B(P)R) governs the areas to be included in GFA calculation and Regulation 23(3)(b) of B(P)R provides for areas of certain types of use that may be disregarded in GFA calculation. In both regulations, there is no reference to either Government Accommodation or private accommodation. However if the accommodation falls within the uses stipulated in 23(3)(b) of B(P)R e.g. areas used solely for parking motor vehicles, loading or unloading of motor vehicles, refuse storage chambers, access

facilities for telecommunication etc., it may be disregarded in GFA calculation.

The issue of exclusion of PTT from GFA calculation was discussed, amongst other things, in the Sai Wan Ho case, details of which have been contained in the minutes of the BAC of 1 August 2001 and 22 October 2001.

In the time available, we have focused on PTT, and since October 2001, BD has approved five cases where the PTT was excluded from GFA calculation under Regulation 23(3)(b) of B(P)R. In all these cases, the leases have stipulated the exclusion of the PTT from GFA calculation. The maximum GFA have also been specified under the leases. A list of these cases is at **Annex B**.

-
- (f) (i) The Building Authority Conference (BAC) is chaired by the Director of Buildings and comprises the Deputy Director of Buildings, the Assistant Director/Support, the subject Assistant Director and another Assistant Director on rotation as members. A staff member of the Technical Support Section of BD will serve as secretary of the BAC. Representatives of relevant government departments and the subject Chief Building Surveyor attend as attendees.

The BAC held on 1 August 2001 was a meeting with expanded membership as explained in paragraph 2 of the minutes of that BAC.

As the BAC of 22 October 2001 was a regular meeting, the representative of the Planning Department (PlanD) was therefore not a member at that meeting.

- (ii) The secretary to the BAC has conducted a search but could not identify any written records on the invitation of Lands Department to the BAC on 22 October 2001. The secretary at the time cannot recall if Lands Department's representative had been invited or if Lands Department's representative had declined the invitation in this particular case. In this regard, invitation of representatives of the

outside departments was and is usually made by telephone calls followed by memo or email confirming the date and venue of the BAC.

If a representative of LandsD had been invited to the BAC meeting of 22 October 2001, he would have been in attendance and would not have been a member, similar to the PlanD representative.

At the request of members at the last PAC meeting, LandsD has checked its file records and there is no record to show that LandsD was invited to attend the BAC meeting held on 22 October 2001. All relevant officers responsible for handling of the case at the time have been contacted and have advised that they do not recall having received invitation in any form from BD to attend the said meeting.

-
- (g) As requested by BD, Professor Alex C W Lui, the external observer at the BAC meetings of 1 August 2001 and 22 October 2001, has provided his career history at **Annex C**.
 - (h) A response will be provided separately and as soon as possible.
 - (i) (i) It would be helpful to first explain how the Building Authority Conference (BAC) operates:
 - The subject Chief Building Surveyor presents the case;
 - The Chairman, members and attendees give their views on the matter; and
 - The Chairman as the Building Authority makes a decision on the matter.

Therefore, in the Sai Wan Ho case, members including Mr CHEUNG Hau-wai gave their own views on the matter, and the Chairman, as the Building Authority, decided on the matter after considering views from members and attendees. No members would suggest or propose to the

Building Authority as to what his decision should be.

The views given by members and attendees are recorded in the minutes, in this particular case in paragraphs 4, 5 and 6 of the minutes of the BAC of 22 October 2001.

The basis of Mr CHEUNG Hau-wai's view to exclude the PTT from GFA calculation, as was that of the other members in this case, was the legal advice as recorded in paragraph 2 and the considerations as recorded in paragraph 5 of the minutes of the BAC held on 22 October 2001. The relevant extract of minutes is at **Annex D**. In addition, it was also noted that although the PTT of developments in the recent 5 years had all been required to be included in GFA calculation, other cases since 1980 had been inconsistent, and the Chairman had directed in the BAC of 1 August 2001 to seek legal advice to clarify the matter.

- (ii) Mr CHEUNG Hau-wai and the other three members gave the view that the PTT could be excluded from the GFA calculation given the basis in paragraph (i)(i) above.
 - (iii) There was no discrepancy between the views given by members and the Chairman during the meeting. After hearing the views given by members as well as those of the attendees, the Chairman then made the decision to exclude the PTT from GFA calculation.
- (j) The events in respect of the submission history of building plans from 4 July 2001 to 23 October 2001 by the authorized person (AP) are summarized in the table at **Annex E**.
-

In respect of the question why the AP submitted the building plans based on different treatments of the Government Accommodation in GFA calculation within a short period of time, we wish to point out that the AP is at liberty to submit different schemes of building proposal for BD's consideration at any time he thinks fit. Since the BAC of 1 August 2001 deferred making a decision on the treatment of PTT, Submission A with PTT

excluded from GFA calculation should have been disapproved by the statutory due date. However, the AP withdrew Submission A and resubmitted Submission B which was identical with Submission A on 3 August 2001 so that, in effect, the due date could be extended. The AP subsequently amended Submission B by including the PTT in GFA calculation.

BD received Submission C on 24 September 2001 and supplementary information on 26 September 2001 which were the initiative of the AP to pursue the outstanding issue of PTT arisen from BAC of 1 August 2001.

In respect of whether there were any events between 2 August and 22 September 2001 that caused the change, the major events include:

- (a) Submission A was withdrawn and Submission B was submitted on 3 August 2001;
- (b) Submission B was subsequently amended by including the PTT in GFA; and
- (c) Submission B was approved on 1 September 2001.

In respect of whether there had been any contact between staff of BD and the AP/developer concerning the case during the period between 2 August 2001 and 22 September 2001, apart from the relevant events recorded in Annex E, the AP and the subject Chief Building Surveyor had a meeting on 2 August 2001 during which the AP indicated his wish to withdraw Submission A which he did on 3 August 2001.

Yours sincerely,



(Rick Chan)

for Secretary for Housing, Planning and Lands

DB	(Attn : Mr Cheung Hau-wai)	[Fax : 2868 0793]
D of Lands	(Attn : Mr Patrick Lau)	[Fax : 2525 4960]
D of Plan	(Attn : Mr Bosco Fung)	[Fax : 2877 0389]
D of ArchS	(Attn : Mr Yue Chi-hang)	[Fax : 2810 7341]
D of Audit	(Attn : Mr Benjamin Tang)	[Fax : 2583 9063]
SFST	(Attn : Mr Martin Glass)	[Fax : 2523 5722]
Mr Leung Chin-man		[Fax : 2870 1737]

**Note by Clerk, PAC: Annexes A, B and D not attached.*

See APPENDIX 18 for Annex D.

Annex C

Career History of Mr LUI Chun-wan, Alex

Period	Employment
1968 - 1969	Hong Kong Housing Authority
1969-1970	Leigh & Orange Architects
1971-1973	Overseas practice
1973-1976	Housing Department, HK Government – Architect
1977-1987	Overseas practice
1988-1998	Simon Kwan & Associates Ltd. – Director
1998-2002	Department of Architecture, Chinese University of Hong Kong – Professor in Architecture
2002-present	Hysan Development Company Limited – Senior Advisor

Service on Boards and Committees

Name of Body	Position Held	From	To
Town Planning Board	Member	1.4.2000	31.3.2006
Appeal Tribunal Panel (Buildings)	Member	1.12.2003 16.1.1995	30.11.2006 30.11.2000
Rural and New Town Planning Committee	Member	1.4.2000	31.3.2006
Authorized Persons Registration Committee Panel	Member	1.1998	12.2001
Authorized Persons Registration Committee B	Member	1.1998	12.2001
Board of Review (Inland Revenue Ordinance)	Member	1.11.1998	30.6.2004
Resources Committee, Construction Advisory Board	Member	30.09.1999	31.03.2002
Special Selection Board, Tamar Development Board	Member	2002	2004
Planning Sub-committee, Lands & Building Advisory Committee	Member	12.1992 3.5.1999	11.1994 31.3.2003
Hong Kong Housing Society Audit Committee	Member	Mid 2005	Present

Audit Report on the Sai Wan Ho Case
Submission History of Building Plans from July to October 2001

Date	Event
4.7.2001	Building plans (Submission A) was received by Buildings Department (BD) for processing, with the PTT excluded from GFA calculation. The statutory due date for processing Submission A was 2.8.2001.
1.8.2001	1st BAC meeting. The decision to exclude the PTT from GFA calculation was deferred pending the seeking of legal advice.
2.8.2001	BD received AP's letter, indicating his intention to carry out amendment to Submission A.
3.8.2001	BD received AP's letter dated 1.8.2001, confirming the withdrawal of Submission A and resubmission of the same set of plans as Submission B. The statutory due date for processing Submission B was 1.9.2001. Subsequently, AP carried out amendment to Submission B, amongst other things, by including the PTT in GFA calculation. The amendment of plans was a normal practice and did not affect the status of Submission B.
1.9.2001	BD approved Submission B, with PTT included in the GFA calculation.
24.9.2001	BD received AP's letter dated 22.9.2001, together with amendment plans with PTT excluded from GFA calculation (Submission C). The statutory due date for processing Submission C was 23.10.2001.
26.9.2001	AP submitted a paper, a study report on PTT, a legal opinion and other materials to BD, in support of his application to exclude the PTT from GFA calculation in Submission C.
22.10.2001	2nd BAC meeting. It was decided that the PTT could be excluded from GFA calculation.
23.10.2001	BD approved Submission C, with PTT excluded from GFA calculation.

Building Authority Conference

**Minutes of the 5/01 Meeting
held on Wednesday, 1 August 2001 at 10:30am
in Room 1816**

Present	:	Chairman	
		Mr C M LEUNG	BA
		Members	
		Mr H W CHEUNG	DD
		Mr K M MO	AD/NB1
		Mr K M CHEUNG	AD/NB2
		Mr Y W LAU	AD/EB1
		Mr C K AU	AD/Sup
		Mr K K LING	DPO/HK, PlanD
		Mr Ernest WONG	ES/SKW, LandsD
		Mr T F LEUNG	SE/E&G, TD
		Mr C P CHOI	E/D(NP), HyD
		Mr S N LO	SDO, FSD
		Mr H K TANG	CBS/HKE
		Mr S YIP	CBS/HKW(Atg)
		Mr J R DOBBING	CBS/K
		Mr H Y TANG	CBS/NTW(Atg)
		Mr C Y LEE	CBS/NTE(Atg)
		Secretary	
		Mr N K WAT	BS/TS1
External observers	:	Prof. Alex C W LUI Prof. Patrick S S LAU	
In attendance		AP & his team	
		Mr Barry WILL	
		Mr Victor KWOK	
		Mr Tony SIU	
		Mr T M TAM	
		Ms Susanna LEE	
		Owner's representatives	
		Mr C K LAU	
		Ms Vicky CHUNG	
		Mr Terence LEE	
		Representative of Owner's Consultant	
		Mr Kelvin LEUNG	

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Meeting No. : 5/01 (1.8.2001)

Case No. : BAC 6/01

Address : Sai Wan Ho Ferry Concourse, Sai Wan Ho, Hong Kong

File Reference : BD 2/3002/01

Subject Matter : Determination on site classification, exclusion of the proposed Public Transport Terminus from GFA calculation, and proposed dedication of areas for public passage in return for bonus plot ratio.

1. **Background**

- a) Building plans for a composite development comprising 5 residential tower blocks over a 6-storey podium with Marine Police Operational Area (MPOA) and a Public Transport Terminus (PTT) on the G/F had been disapproved, inter alia, on the following grounds :-
 - (i) the site was not a Class C site;
 - (ii) the proposed MPOA and PTT should be included in GFA calculation; and
 - (iii) the proposed dedications for public passage were not acceptable.
 - b) The AP had re-submitted the plans. The case was submitted to Building Authority Conference to determine (i) whether the site was a Class C site; (ii) whether the PTT and MPOA should be excluded from GFA calculation; and (iii) whether the proposed dedications in return for bonus plot ratio were acceptable.
 - c) The proposed dedication area comprised of (i) most of the areas indicated in the control drawing in the lease as “areas reserved for entrance lobbies and other facilities for upper floors” (the “reserved areas”) on the G/F to become part of the PTT; (ii) a strip of land along the SE boundary forming the vehicular egress from the Marine Police Complex and MPOA; and (iii) the pedestrian walkway on Level + 11m.
2. The Chairman welcomed representatives of the various government departments and the two professors to the meeting. He informed the meeting that the role of the two professors were observers and they were to tender to the BA their impartial and independent views. Their presence would enhance the transparency of the decision making process and indeed the credibility of BD. The case was submitted direct to the expanded BAC which comprised of, inter alia, CBSs of the New Buildings 1 Division (who were members of the Building Committee I) and representatives of relevant government departments in the light of the complexity of the case.
3. The AP and his team, the owner’s representatives and the consultant’s representative (collectively called the AP’s team) were then invited to give a presentation of their case. The Chairman also explained to them the special composition of the Conference and the role of the two external observers.

4. Prof. Patrick S S LAU declared that he was the President of HKIA.
5. The AP presented his case and put forward the following:

Exclusion of PTT from GFA Calculation

- (a) There was an “access road” of more than 4.5m wide at the south-east of the site. It served as the EVA to the 2 marine fuelling stations and provided access to the public landing area as well as the Marine Police Regional Headquarter. It fell within the definition of street under the BO.
- (b) The “access road” was zoned “Open Space” on the OZP and its permanency was certain.
- (c) The lease for the subject site had not specified whether the PTT was countable for GFA. It only specified a minimum GFA and there was no restriction on the maximum GFA. The developer should be entitled to the development potential allowable under the First Schedule of B(P)R.
- (d) It was the genuine understanding of the developer when submitting his tender for the site that the PTT would not be countable for GFA under B(P)R 23(3)(b).
- (e) Although the provision of PTT was a known obligation under the Conditions of Sale, it did not necessarily mean that the entitlement to full development potential under the BO had to be taken away in fulfilling the obligation.
- (f) There were different categories of precedents on the treatment of PTT for the purpose of GFA calculations as follows:
 - i) The lease had not specified whether the PTT was accountable for GFA and the PTT was excluded from GFA calculation under the BO (e.g. United Centre, China Hong Kong City, Laguna City, Telford Plaza, Whampoa Garden and Nam Fung Centre).
 - ii) The lease had not specified whether the PTT was accountable for GFA and the PTT was counted for GFA under the BO (e.g. Cheung Sha Wan Plaza). For this case, the development potential of the site was restricted by the then airport height restriction.
 - iii) The lease had specified that the PTT was not accountable for GFA and the PTT was excluded from GFA calculation under the BO (e.g. Park Towers, Exchange Square, Sunshine City and Riviera Garden).
 - iv) The lease had specified that the PTT was not accountable for GFA but the PTT was counted for GFA under the BO (e.g. South Horizons, Hong Kong Station, Waterfront, Galaxia, Laguna Verde and Citygate). For these cases, the GFAs were capped under lease.
 - v) The lease had specified that the PTT was accountable for GFA and the PTT was counted for GFA under the BO (e.g. Island Resort).

- (g) The car-parking area in MPOA was ancillary to the function of the Marine Police Regional Headquarter. The lease was silent on whether MPOA was accountable for GFA. Such area for use as car parks and loading and unloading of vehicles should be exempted from GFA calculation under B(P)R 23(3)(b).

Dedication for Public Passage

- (h) The following proposed dedicated areas should be entitled to bonus plot ratio:
- i) Extra space was required to be provided for the MPOA to meet the requirements specified in the Technical Schedule of the lease. As a result of this, the PTT had to be extended to include most of the “reserved areas” on G/F. It was reasonable in the circumstances to dedicate the “reserved areas” for public use in return for bonus.
 - ii) For the strip of land along the SE boundary the developer proposed to dedicate it for public passage to facilitate access to the PTT. Although the land had been designated as a right-of-way under the Conditions of Sale, the developer should have the right to dedicate the land for public passage in return for bonus plot ratio.
 - iii) The proposed pedestrian walkway on Level + 11m would enable the provision of a continuous waterfront promenade, linking up the adjoining developments and MTR Station. It would be in the interest of the public for government to accept the dedication of the walkway in return for bonus.
6. The owner’s representative distributed a “Study Report on PTT” to members and drew members’ attention on those PTTs where the lease was silent on the accountability for GFA but were excluded from GFA calculation under the BO (i.e. United Centre, China Hong Kong City, Laguna City, Telford Plaza, Whampoa Garden and Nam Fung Centre). He also pointed out that amongst the 6 cases, the lease for the China Hong Kong City contained a clause specifying the minimum GFA while the leases for the other 5 cases had restrictions on the maximum GFA.
7. In response to a member’s query, the owner’s representative said that he was aware of some of the precedent cases quoted in his presentation prior to the submission of tender and that public car-parking spaces were accountable for GFA.
8. The AP’s team then left the meeting.
9. CBS/HKE tabled a block plan and the proposed building plans and briefed members on the background.
10. **Classification of Site**
- a) CBS/HKE tabled a block plan showing the site situation and said that the existing partly paved area on the south-east was a vehicular access but was not subject to any right-of-way.

- b) DPO/HK advised the meeting that the “access road” was zoned “Open Space” on the OZP with the exception of the 2 marine fuelling stations. The planning intention was to develop the “access road” into a continuous promenade to connect the planned promenade in Aldrich Bay and the Quarry Bay Park. He said that the piers being occupied by the Marine Police were intended to be used as recreational areas upon the vacation of the Marine Police and the “access road” would likely be required as an EVA to the piers.
- c) ES/SKW, LandsD said that the strip of land on the south eastern side of the site lied partly on land allocated to the Marine Police and partly on unleased and unallocated government land. Written enquiry had previously been made by District Lands Office/HK East to BD during the preparation of tender conditions to clarify whether this strip of government land zoned for open space could be classified as a street under the B(P)R. The reply from BD was that the government land was not regarded as a street under s.2 of the BO. To create a Class C site as per BD’s advice, a strip of land with 4.5m in width was therefore earmarked in the south-eastern corner of the subject site as a non-building area as well as a public passage. He added that the two “petrol filling stations” as mentioned by some members in the meeting were in fact “marine fuelling stations”. The term for the grant of the marine fuelling stations was 21 years from 1991. Vehicular access to the marine fuelling stations was not allowed under the lease.
- d) SDO, FSD said that the “access road” was an existing EVA to the marine fuelling stations though it was not indicated on the approved building plans of the marine fuelling stations.
- e) Members exchanged views on the issue and had the following observations:
 - i) The “access road” was an existing EVA to the marine fuelling stations and an access to the public landing area. Notwithstanding the restriction on vehicular access, employees of the marine fuelling stations would likely have to pass over the “access road” for access to the stations. In this respect, members noted that the approved building plan of a marine fuelling station did show a door opening onto the “access road”. Members therefore held the view that the “access road” bore the characteristics of a street and would continue to serve the marine fuelling stations and the public landing area.
 - ii) It was the planning intention to develop the “access road” into a waterfront promenade for public passage. The “access road” was also intended to serve as an EVA to the piers that would be used as recreational areas.
 - iii) Apart from having the characteristics of a street, the permanency of the “access road” as a street under the BO could be ascertained in view of (i) & (ii).
- f) Having considered all the relevant issues, the majority of the members advised and the Chairman agreed that the “access road” was a street under the BO and the site was a Class C site.

11. Prof. Patrick S S LAU left the meeting.
12. **Dedication of most of the “reserved areas” on the G/F to form part of the PTT for public use**
- a) SE/E&G, TD said that the proposed layout of the PTT in the building plans submitted was the result of (i) the enlargement of MPOA to cope with the requirements in the Technical Schedule; (ii) the conversion of the public footpaths outside the lot boundary into landscaped areas resulting the re-provision of footpaths within the PTT; and (iii) the provision of a larger PTT than as required. He opined that if the proposals referred to in (ii) & (iii) were not included in the redesign of the PTT, the “reserved areas” in the control drawing provided with the lease conditions might be sufficient to serve the original purposes intended under the lease. However, he agreed that the proposed PTT having a larger area would function better than the original one.
 - b) DPO/HK was of the view that the proposed PTT was an improvement to the original one. He supported the dedication of the “reserved areas” in return for bonus plot ratio.
 - c) ES/SKW, LandsD advised the meeting that the Technical Schedule was provided by concerned departments. He further added that the control drawing for the PTT was part of the Technical Schedule under the Conditions of Sale. The purchaser had to obtain prior approval from the Director of Lands who would consult relevant government departments before any amendment or alteration to the Technical Schedule could be made.
 - d) Members exchanged views on the issue and had the following observations:
 - i) The area for MPOA as indicated on the lease control drawing could not cope with the requirements set out in the Technical Schedule. As a result, the PTT had to be shifted southward.
 - ii) The redesigned PTT having a larger area was an improvement to the original one.
 - iii) The provision of landscaped areas, which resulted in repositioning the public footpaths within the PTT, should be encouraged.
 - iv) The developer should be compensated in return for the dedication of ground floor areas which could otherwise be used for other uses.
 - e) Having considered all the relevant issues and the views expressed by members, the Chairman **accepted** the proposed dedication of the “reserved areas” for use as PTT and **agreed** that bonus plot ratio be granted subject to an undertaking from the owner that he would not seek any further compensation from the government apart from the bonus given, and that the layout of the PTT was acceptable to all relevant government departments.

13. **Dedication of a strip of land at the SE boundary for public passage and of the vehicular egress from MPOA, and Dedication of the pedestrian walkway on Level +11m for public passage**

- a) ES/SKW, LandsD advised the meeting that the Pink Hatched Black Area at the south-eastern boundary of the lot was designated as non-building area under the Conditions of Sale and that the lot owner was required under the Conditions of Sale to permit the public at all times to pass and repass the Pink Hatched Black Area. The AP's proposal to dedicate this Pink Hatched Black Area was therefore out of the question and should be rejected. The lot owner was also required under the Conditions of Sale to permit a free and unrestricted vehicular access at all times to the Commissioner of Police and its officers, the Director and such other tenants, occupiers or licensees as might be approved by the Director over and along the Pink Hatched Black and Pink Cross-Hatched Black Area.
- b) DPO/HK said that the dedication of the pedestrian walkway on Level +11m would only be meaningful if the "access road" was also developed into a promenade and adequate pedestrian connection was provided to link up the promenade and the walkway. Otherwise the proposed pedestrian walkway would serve no purpose. He proposed that the dedication of the pedestrian walkway be accepted if the "access road" was to be developed into a promenade by the developer with adequate pedestrian connection to link it up with the walkway.
- c) ES/SKW, LandsD advised the meeting that if the promenade concerned would eventually be linked up pursuant to the OZP as and when the Marine Police was relocated, the proposed pedestrian walkway connecting the Aldrich Bay reclamation area and the promenade at Lei King Wan would only serve a temporary purpose and would become redundant in the longer term. There were also alternative routes for connecting the two areas.
- d) Members exchanged views on the issues and had the following observations:
 - i) The strip of land at the SE boundary was an emergency vehicular egress for the Marine Police and therefore was not suitable for public passage.
 - ii) If the "access road" was developed into a promenade, the public could gain access via the promenade to the PTT. Under such circumstances, only a portion of the Pink Cross-Hatched Black Area fronting the proposed access to PTT at the SE boundary was required for public passage.
 - iii) The dedication of the pedestrian walkway was meaningful and beneficial to the public only if the "access road" was also developed into a promenade with a pedestrian connection with the walkway at Level +11m.
- e) Having considered all the relevant issues and members' views, the Chairman **agreed** that (i) bonus plot ratio be granted for the dedication of the pedestrian walkway on Level + 11m on conditions that the "access road" was developed into a promenade by the developer and that such proposals (including the proposed staircase and lift) were accepted by the relevant government departments; (ii) the amount of bonus plot ratio referred to in (i) would be subject to negotiation taking into account the cost of development of the promenade; and (iii) bonus plot ratio

be granted in return for the dedication of only the portion of the Pink Cross-Hatched Black Area fronting the opening giving access to the PTT for public passage.

- f) The Chairman directed CBS/HKE to consult LCSD on the proposal including the provision of staircase and disabled lift.

14. **Exclusion of the PTT from GFA calculation**

- a) CBS/HKE said that the normal practice of this department was to require PTT to be counted for GFA except in some cases where (a) the lease had expressly allowed for its exclusion; or (b) the lease had specified the maximum GFA; or (c) GFA exemption under the BO had been endorsed prior to the sale of the site to cater for special circumstances.
- b) DPO/HK opined that as the PTT was required to be provided under the lease, the exclusion of the PTT from GFA calculation would not generate any benefit to the public. He was a bit concerned about the increase in the development intensity if the PTT was allowed to be excluded from GFA calculation.
- c) ES/SKW, LandsD said that the Conditions of Sale had only specified the minimum residential GFA for the development. The plot ratio control of the development would be left to BD under the BO. He added that during the stage of preparing the Conditions of Sale, BD confirmed in writing that the Government Accommodation should be included in the GFA calculation under B(P)R. Based on BD's advice, LandsD assessed the tender reserve price on the basis that the Government Accommodation would be included in the calculation of GFA. In the circumstances, the PTT as a Government Accommodation should be accountable for GFA. He further said that LandsD had advised, in response to enquiries of some tenderers, that the Government Accommodation was accountable for GFA calculation under B(P)R 23(3)(a). In response to Chairman's enquiries, he further clarified that the purchaser of this site had not made an enquiry on the issue during the tendering stage.
- d) Members exchanged view on the issue and had the following observations:
- i) For the 4 quoted cases at Laguna City, Telford Plaza, Whampoa Garden and Nam Fung Centre, the maximum GFA was capped under the leases. As the permissible GFA under the BO would not be exceeded whether the PTT was counted or not counted for GFA calculation under the BO, BD did not address the issue directly in those cases.
 - ii) The site at United Centre was subject to a maximum PR of 18 and a bonus GFA of 5 times of the area of the PTT under the lease after the endorsement of the former PWD Conference.
 - iii) The PTT at China Hong Kong City was a closest case comparable to the subject PTT among the cases mentioned in the AP Team's Report, in that in both cases the lease had not mentioned whether the PTT was countable for GFA and the lease had only specified the minimum GFA for the development. The PTT at China Hong Kong City was allowed to be

excluded from GFA calculation under B(P)R 23(3)(b) on the ground that the PTT was ancillary to the use of the ferry pier in Concourse Building within the site. Some members considered that for the case under consideration, it was arguable that the PTT was a use ancillary to the principal use of the development.

- iv) Some members opined that the subject PTT was not different from that at China Hong Kong City, and there was no reason why BA should not grant similar exemption under B(P)R 23(3)(b).
- v) Some members were of the view that the Cross Boundary Coach Terminus (CBCT) within the subject PTT was similar in nature to the ferry pier of the Concourse Building at China Hong Kong City. As such, some members opined that the CBCT should be counted for GFA as in the case of the Concourse Building and that the remaining part of the PTT could be treated as ancillary to the function of the CBCT and hence could be exempted from GFA calculation under B(P)R 23(3)(b).
- vi) SE/E&G, TD said that the use of the local PTT was not a use ancillary to the function of the CBCT.
- vii) Government Accommodation should not be treated differently from private accommodation when assessing the accountability for GFA calculation.
- viii) The developer had knowledge of some of the precedent cases before the submission of tender.
- ix) Whether PTT was accountable for GFA under leases varied from case to case.
- e) Prof. Alex C W LUI noted that while it could be argued that the developer should take steps to clarify if the PTT should be counted for GFA as he was aware of the different treatments accorded to the various projects, it could also be argued that the administration should also take steps to clarify the position before tender. There was clear inconsistency on whether PTT was accountable for GFA as reflected by BD's rulings in previous cases. He was of the view that developers might be confused on whether PTT was accountable for GFA as there was inconsistency on the treatment of PTT under the lease as well as under the BO. On this basis, he opined that the developer should be given the benefit of doubt. He also recommended that the inconsistency be clarified between the departments and guidelines be issued to the industry.
- f) The Chairman noted the spilt views amongst members on this issue. He **directed** that legal advice should be sought on the application of B(P)R 23(3)(b) in this case before making a decision on the matter.

15. **Advice given**

- a) The AP's team was invited to the meeting and the Chairman advised the team the following decision of the BA:
- (i) The site could be treated as a Class C site.
 - (ii) Dedication of portion of the "reserved areas" for use as PTT in return for bonus would be accepted subject to acceptance of the layout of the PTT by all relevant government departments and to an undertaking from the owner that he would not seek any further compensation from the government apart from the bonus given.
 - (iii) There was no objection in principle to the dedication of the proposed walkway on Level +11m if the "access road" (including the staircase and lift structure) was developed into a promenade by the developer simultaneously and the scheme was acceptable to all relevant government departments. The extent of the bonus to be given would be considered later and would be subject to negotiation between the government and the developer.
 - (iv) Only the portion of the Pink Cross-Hatched Black Area giving immediate access to the PTT would be accepted for dedication in return for bonus.
 - (v) A decision on the accountability of the PTT and MPOA for GFA calculation would be made at a later day.

Building Authority Conference
Minutes of the 8/01 Meeting
held on Monday, 22 October 2001 at 3:45 pm
in DB's Office

Present : **Chairman**

Mr C M LEUNG BA

Members

Mr H W CHEUNG DD
 Mr K M MO AD/NB1
 Mr C K AU AD/Sup
 Mr K M CHEUNG AD/NB2

Secretary

Mr N K WAT BS/TS1

External observer : Prof. Alex C W LUI

In attendance : Mr K K LING DPO/HK
 Mr K P CHOW CBS/HKE
 Mr S YIP CBS/L(Atg)

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Meeting No.: 8/01 (22.10.2001)

Case No.: BAC 9/01

Address: Sai Wan Ho Ferry Concourse

File Reference: BD 2/3002/01

Subject Matter: Exclusion of the proposed Public Transport Terminus and Marine Police Operational Area from GFA calculation

Public Transport Terminus (PTT) – Background

1. At the last BAC meeting 5/01 held on 1.8.2001, it was decided that legal advice should be sought on the application of B(P)R 23(3)(b) in this case before making a decision on whether the PTT could be excluded from GFA calculation.
2. CBS/HKE briefed members on the legal advice received. The gist of the legal advice was that :
 - (a) Public transport terminus fell within the meaning of the term “parking motor vehicles, loading and unloading of motor vehicles” in B(P)R 23(3)(b).
 - (b) BA must first be satisfied that any floor space was constructed or intended to be used solely for parking motor vehicles, loading and unloading of motor vehicles. This was a question of fact and could be established and supported by documentary submission of plans or designs.
 - (c) BA should then consider whether or not to disregard such floor space from GFA calculation. In the exercise of this discretionary power, each case must be considered on its own merits and be decided as the public interest required at the time.
 - (d) There was no reference of any consideration of lease restrictions in refusing approval of plan under the BO.
 - (e) The exercise of development control under the BO was independent of the lease conditions in every case.
 - (f) BA should consider the circumstances of the case and exercise his discretion according to his guidelines and policy. However, consistency should not be pursued at the expense of the merits of the individual cases.
3. CBS/HKE also briefed members on several past cases which revealed that in the past, BA had allowed some PTT to be excluded from GFA calculation but required some others to be included.

4. DPO/HK opined that as the PTT was required to be provided under the lease, the exclusion of the PTT from GFA calculation would not generate any additional benefit to the public. Whilst the planning intention for this site was to leave the control of the building bulk to B(P)R, he was concerned that if the PTT was allowed to be excluded from GFA calculation, the proposed building bulk/height would be increased causing additional visual impact in view of its waterfront location. This might also set a precedent having implication on the calculation of GFA for other public facilities required by the Government.
5. Having noted the additional information given by CBS/HKE, members had the following observations :
 - (a) According to legal advice PTT fell within the ambit of floor space for parking motor vehicles, loading or unloading of motor vehicles.
 - (b) Members were satisfied that the proposed PTT as shown on the plans submitted was constructed or intended to be used solely for parking motor vehicles, loading or unloading of motor vehicles.
 - (c) B(P)R 23(3)(b) provided an explicit discretionary power for the BA to disregard such floor space from GFA calculation. In the circumstances, when exercising the discretion, the BA should examine if it would be against the public interest to exclude the PTT in question from GFA calculations.
 - (d) The provision of a PTT in this case was definitely in the public interest. The exclusion of the PTT in the case from GFA calculation would also not have adverse effect on the public interest. Otherwise, Transport Department and Planning Department would not have recommended the provision of a PTT in this site in the first place.
 - (e) As advised by D of J, the exercise of the discretionary power under B(P)R 23(3)(b) should be independent of the lease conditions. Therefore, when considering the question of public interest, it might be unreasonable to consider it as not serving public interest to allow the PTT to be excluded from GFA calculation simply because the developer had contracted to provide a PTT in the lease.
 - (f) There was at present no statutory town planning control over the GFA and bulk of the development on this site. In the case of GFA, the control was left to the provisions of the B(P)R. In the circumstances, the permissible GFA should follow that allowed by the First schedule to the B(P)R and the area which might be included should be dealt with under B(P)R 23(3)(b). If there was any planning intention to further restrict the GFA or the bulk, this should have been spelt out in the lease conditions when the land was granted to the developer. In the circumstances, it was not appropriate now to address PlanD's concern under the BO.
 - (g) Although there were internal guidelines dealing with the exclusion of car parking spaces from GFA calculation, no clear guidelines on how BA would deal with exclusion of PTT had been issued both internally and to the industry.
 - (h) The past cases dealing with the exclusion of PTT from GFA calculations were inconsistent and thus no guidelines nor policy had been or could be established.

6. Prof. Alex C W LUI was of the view that developers might be confused on whether PTT could be excluded from GFA calculation as there was inconsistency in the treatment of PTT under the lease and under the BO. He was inclined to give the developer the benefit of the doubt.
7. Having considered all the relevant factors, members advised and the Chairman **agreed** to exclude the PTT in this case from GFA calculation.
8. The Chairman directed that in the light of the current legal advice and the principles established in this case for considering the exclusion of carpark and loading and unloading areas from GFA calculations under B(P)R 23(3)(b), the present internal guidelines and PNAP dealing with the subject should be reviewed and re-issued as soon as possible.

Marine Police Operational Area (MPOA)

9. Members noted that the MPOA was not ancillary to the principal use of the proposed development.
10. There were already clear guidelines that car parking spaces provided other than for the occupants of a building should be included in GFA calculations. Therefore, in line with the present guidelines which were known to the industry and applied consistently, members advised and the Chairman **agreed** that the MPOA should be counted for GFA.

YOUR REF 來函編號 : CB(3)/PAC/R45
OUR REF 本署編號 : L/M (9) to BD(CR) FIN/12
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8 December 2005

Ms Miranda HON
Clerk to Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road Central
Hong Kong

(Fax : 2537 1204)

Dear Ms Hon

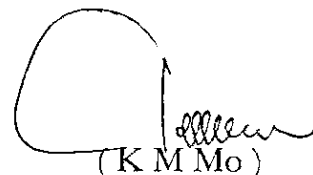
**The Director of Audit's Report on the
results of value for money audits (Report No. 45)**

Chapter 3: Development of a site at Sai Wan Ho

Thank you for your letter of 7 December 2005.

I attach herewith a copy of the Practice Note 23 on
"Discretionary Approval – Factors for Consideration" issued in September
2002 and the version issued in September 2000 for your reference.

Yours sincerely



(K M Mo)

for Director of Buildings

c.c. SHPL	(Attn : Ms Olivia NIP)	[Fax : 2899 2916]
D of Lands	(Attn : Mr Patrick Lau)	[Fax : 2525 4960]
D of Plan	(Attn : Mr Bosco Fung)	[Fax : 2877 0389]
D of ArchS	(Attn : Mr Yue Chi-hang)	[Fax : 2810 7341]
D of Audit	(Attn : Mr Benjamin Tang)	[Fax : 2583 9063]
SFST	(Attn : Mr Martin Glass)	[Fax : 2523 5722]
Mr Leung Chin-man		[Fax : 2870 1737]

Discretionary Approval – Factors for Consideration

From time to time, the Building Authority (BA) needs to exercise his discretion in approving or rejecting a submission. When exercising his discretion, the BA should take into account all consideration relevant to the particular application. While it is acknowledged that what is relevant depends on the application and its circumstances, the following should be considered in formulating recommendations :-

1. Government policy, public interest, objective of policy.
2. Town Plan restrictions, recommended standards or guidelines stipulated in the relevant HKPSG or Development plans.
3. Lease restrictions.
4. Statutory provisions and legal principles particularly those on which advice from S for J is available or which can be inferred from JR/Court/Appeal precedents.
5. Special circumstances of the case including the case history, reasonable expectation of the developer/AP, any previous disapprovals or approvals for the case or similar cases.
6. Special characteristics of the site affecting the planning, architectural, engineering or construction aspects of the proposed development.
7. Views of other government departments.
8. Effect of the development on the adjoining sites and the district.
9. Fairness.

Ref. : BD GP/OA/28

This issue Sept. 2000

Index under : Discretionary Approval
Approval - Discretionary

Discretionary Approval – Factors for Consideration

From time to time, the Building Authority (BA) needs to exercise his discretion in approving or rejecting a submission. In general, statutory powers have to be exercised reasonably and in good faith. When exercising his discretion, the BA should take into account all consideration relevant to the particular application. While it is acknowledged that what is relevant depends on the application and its circumstances, the following factors may be considered, if appropriate, in formulating recommendations :-

1. Government policy, public interest, objective of policy.
2. Town Plan restrictions, recommended standards or guidelines stipulated in the relevant HKPSG or Development plans.
3. Lease conditions. (NB While the development control under the Buildings Ordinance is independent of that under the lease conditions, the lease condition may provide some practical circumstances to assist us in exercising our discretionary power.)
4. Statutory provisions and legal principles particularly those on which advice from S for J is available or which can be inferred from JR/Court/Appeal precedents.
5. Special circumstances of the case including the case history, reasonable expectation of the developer/AP, any previous disapprovals or approvals for the case or similar cases.
6. Special characteristics of the site affecting the planning, architectural, engineering or construction aspects of the proposed development.
7. Views of other government departments.
8. Effect of the development on the adjoining sites and the district.
9. Fairness.

Ref. : BD GP/OA/28

First issue Sept. 2000

This revision Sept. 2002

Index under : Discretionary Approval
Approval - Discretionary

28th November 2000

URGENT

Director of Lands
Lands Department
20/F., North Point Government Offices
333 Java Road
North Point
Hong Kong

By Fax (2525 4960) & By Hand

Attn: Mr. R.D. Pope, JP

Dear Sirs,

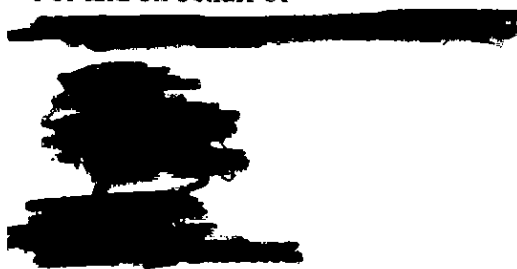
Re : Government Tender  40/HK
IL 8955
Sai Wan Ho Ferry Concourse

With reference to the Tender Notice for Inland Lot No. 8955, we have noted that there is no explicit statement on exemption of the Government Accommodation (i.e. the public transport interchange, the cross boundary coach terminus and the Marine Police Operation Area) from the Gross Floor Area calculation under the Land Grant conditions.

In a no. of other cases, the public transport interchange & coach terminus are often exempted from GFA calculation, we wish therefore for your confirmation that these facilities are exempted from GFA calculation under the Conditions of Sale for Inland Lot No. 8955.

Thank you.

Yours faithfully
For and on behalf of





地政總署
LANDS DEPARTMENT

電話 Tel: 2231 3003
圖文傳真 Fax: 2868 4707
本署編號 Our Ref: (53) in LD 2/HKE/LS/98
來函編號 Your Ref: GW-569/00-L

30 November, 2000

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

(Attn.: [REDACTED])

Dear Sirs,

**Government Tender
IL 8955
Sai Wan Ho Ferry Concourse**

Thank you for your letter of 28 November 2000.

The Conditions of Sale do not specify a maximum GFA. Special Condition 9(a) requires that any building or buildings erected or to be erected on the lot, including the Government Accommodation, shall in all respects comply with the Buildings Ordinance, any regulations made thereunder and any amending legislation. The Director of Buildings advises me that the Government Accommodation shall be included in the GFA calculation, under B(P)R 23(3)(a).

I trust this answers your query.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'W. K. Chung'.

(W. K. CHUNG)
for Director of Lands

b.c.c. DLO/HKE

WKC/mc



審計署
香港灣仔
告士打道上號
入境事務大樓
二十六樓

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

圖文傳真 Facsimile : 2583 9063

電話 Telephone : 2829 4219

本署檔號 Our Ref. UB/PAC/ENG/45-2

12 December 2005

來函檔號 Your Ref. CB(3)/PAC/R45

Clerk, Public Accounts Committee
Legislative Council Secretariat
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. 45)**

Chapter 3: Development of a site at Sai Wan Ho

Thank you for your letter of 9 December 2005 requesting the Audit Commission (Audit)'s response to Mr LEUNG Chin-man's written submission (ref: PAC/R45/CH3/GEN13), including his views on whether or not the Building Authority's decisions had caused loss in land premium (item B of his submission refers). My comments are as follows:

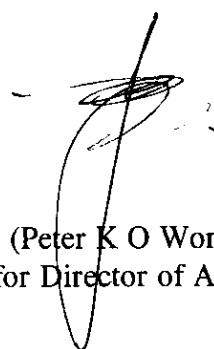
**Comments on paragraph B(6) on page 3 of
Mr LEUNG Chin-man's written submission**

In paragraph B(6) on page 3 of his written submission, Mr LEUNG Chin-man commented that the statement in paragraph 6.25 of the Audit Report was "merely a hypothetical statement". Audit needs to point out that in paragraph 6.25 of the Audit Report, it was stated that "the **financial implications**... amounted to \$125 million". This figure was an estimated amount, in money terms, of the gross floor area concerned, and was derived from the Lands Department's reserve price assessment made before the award of the tender (see Note 28 on page 42 of the Audit Report).

**Comments on paragraph D(3) on page 7 of
Mr LEUNG Chin-man's written submission**

Furthermore, it was stated in paragraph D(3) on page 7 of Mr LEUNG Chin-man's written submission that " 'the exercise of development control via the Buildings Ordinance was independent of the lease conditions' (see paragraph 6.18(d) of the Audit Report)". Audit has to clarify that paragraph 6.18(d) of the Audit Report only stated the Department of Justice's advice as quoted by other Building Authority Conference members (see **Other BAC members' views** on pages 39 and 40 of the Audit Report). As Mr LEUNG Chin-man's written submission did not mention the aforesaid fact, it might give the impression that he was quoting Audit's opinion. Therefore, Audit considers that this needs to be clarified.

Yours sincerely,



(Peter K O Wong)
for Director of Audit

c.c. Secretary for Housing, Planning and Lands	(Fax: 2899 2916)
Director of Buildings	(Fax: 2868 0793)
Director of Lands	(Fax: 2525 4960)
Director of Planning	(Fax: 2877 0389)
Director of Architectural Services	(Fax: 2810 7341)
Secretary for Financial Services and the Treasury	(Fax: 2523 5722)
Mr LEUNG Chin-man	(Fax: 2870 1737)

電郵地址 Email: dofl@landsd.gov.hk

電話 Tel: 2231 3000

圖文傳真 Fax: 2868 4707

本署檔號 Our Ref: (18) in LD 1/2/HKE/LS/98 IV (TC)

來函檔號 Your Ref: CB(3)/PAC/R45



地政總署
LANDS DEPARTMENT

Urgent By Fax

31 December 2005

Ms Miranda Hon
Clerk to Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road, Central
Hong Kong
[Fax: 2537 1204]

Dear Ms Hon,

**The Director of Audit's Report on the
Results of value for money audits (Report No. 45)**

Chapter 3 : Development of a site at Sai Wan Ho (SWH)

Thank you for your letter of 21 December 2005.

The requested information is as follows :-

- (a) The bulk and/or height of a building with a public transport terminus (PTT) exempted from gross floor area (GFA) will inevitably be greater than if the PTT were not exempted, provided the developer is able to enjoy the exemption as he was in the subject cases.. The developer/grantee was not required to pay a premium to the Government as a result for the reasons stated below :-

Item No.	Location of PTT	Reasons for not charging additional premium
(1)	United Centre, Admiralty (Lot sold by auction)	The lease allows for possible exemption of PTT from GFA calculation as it specifies that "the maximum plot ratio (as defined in Section 21(3) of the Building (Planning) Regulations) of any building erected or to be erected on the lot shall not exceed 18".

(2) China Hong Kong City, Tsimshatsui (Lot sold by tender)	The lease does not contain a maximum GFA clause and therefore possible exemption of PTT from GFA calculation is acceptable under the lease.
---	---

(3) Scout Association, Austin Road, Tsimshatsui (Lot granted by private treaty grant)	The lease does not contain a maximum GFA clause and therefore possible exemption of PTT from GFA calculation is acceptable under the lease.
---	---

In any case, the grantee is a non-profit-making organization and the lot was granted to it by private treaty grant at nominal premium.

(b) For items (1) and (2), there was no enquiry from any prospective tenderers as to whether the PTT would be included in the GFA calculations.

For item (3), the question does not apply to the case as the lot was granted by way of private treaty grant.

(c) Please see the attached Site Valuation Framework. I have referred to this as a "framework" rather than a formula as the latter has mathematical precision whilst valuation involves assessment based on a number of variables.

(d) When assessing the "after value" of the lot in the \$5.97M assessment, whether the value of the lot had increased or decreased after its sale in 2001 was not a relevant factor for consideration. The only matter for consideration was the increase in the then current (i.e. 2003) value attributable to the consent to amend the control drawing. The value of the lot increased because of the certainty of the exemption of the PTT and the availability of bonus GFA having been established by 2003. As a matter of fact land values generally declined between the time of sale of the lot in January 2001 and the time of assessment of premium for consent to amend the control drawing in January 2003. As regards percentages, the increase in value from \$2,430.0M to \$2,708.4M is an 11% increase.

It is important to appreciate that had the lease conditions limited the GFA to that which could have been achieved under the Schedule 1 to the Building (Planning) Regulations with no PTT exemption and no bonus GFA, the sale price obtained for the lot would have been less than the \$2,430.0M actually obtained. In those circumstances, the only way further revenue could have been obtained would have been for the following to have happened :-

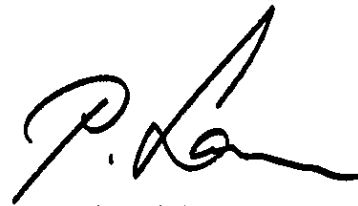
- (i) the owner would have applied for PTT exemption and bonus GFA. Since he would have to conclude a lease modification to enjoy any such exemption or bonuses should the BA have agreed to grant them (see (ii) below), the time that this would take and the need to pay a premium would have been a considerable disincentive to him and he may well have decided not to pursue that;
- (ii) had he pursued that and applied to the BA for exemption and bonuses, it is by no means certain that the BA would have granted them, as the lease would have been quite different. The BA may have rejected the application;
- (iii) in the event that an application were made by the developer and approved by the BA, there would have been no certainty as to the subsequent application for lease modification being successfully completed. The developer may have found the premium sought by LandsD unacceptable.

Had the sale conditions contained a restriction as to GFA, the only way extra revenue could have been obtained above the reduced sale price that would have been paid would have been for all three of these hurdles to have been successfully crossed. Failure to cross any one of them would have resulted in less revenue than was actually collected being received.

LandsD took and continues to take the view that where the planning intention is that development should not be less than what can be achieved under the Buildings Ordinance, it is better to obtain maximum value on the original sale by leaving the sale conditions silent as to GFA rather than to limit GFA and take a lower sum at that time in the hope that any potential for achieving a development with greater GFA and therefore greater value will be successfully pursued and result in the payment of a premium on lease modification at some future date. However, as pointed out by the Secretary for Housing, Planning and Lands at the PAC hearing, this matter is currently being reviewed by the Bureau.

The fact that the Audit Report consistently uses the phrase "where appropriate" on this issue is a clear acknowledgement that there are circumstances where it would not be appropriate to set a maximum GFA. Such circumstances arise in cases where the planning intention is, as at the subject site in Sai Wan Ho, that the lot shall be developed to up to the development intensity that can be attained under the Buildings Ordinance.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'P. Lau', written in a cursive style.

(Patrick Lau)
Director of Lands

c.c. Secretary for Housing, Planning and Lands
Director of Buildings
Director of Planning
Director of Architectural Services
Secretary for Financial Services and the Treasury (Attn: Mr Martin GLASS)
Director of Audit
Mr LEUNG Chin-man, JP

Site Valuation Framework

(a) **Value of Completed Development**

GFA x efficiency ratio⁽¹⁾ x \$/sq.m.⁽²⁾
deferred for $x^{(3)}$ years at $i\%$ ⁽⁴⁾

(b) **Costs**

GFA x \$/sq.m.⁽⁵⁾ x 1.06⁽⁶⁾ x 1. $n^{(7)}$
deferred for $x/2^{(8)}$ years at $i\%$ ⁽⁴⁾

(c) **Land Value = $\frac{(a) - (b)}{1.n^{(7)}}$**

Footnotes

1. Efficiency ratio (sometimes called saleable ratio) is the saleable area expressed as a percentage of GFA. Saleable area excludes common parts.
2. Unit rate of value of completed development on saleable area basis derived from analysis of comparable transactions.
3. Period from valuation date to receipt of sale proceeds, i.e. the development period.
4. A rate of interest reflecting the cost of borrowing.
5. Unit rate of cost of construction derived from analysis of construction contracts.
6. Allowance for architects' fees.
7. Allowance for developers' profit derived from analysis of land transactions.
8. Period from valuation date to mid-point of the development period.

Lands Department
December 2005

DB

We spoke on the proposal to invite independent professionals to join in our BAC meeting concerning the Sai Wan Ho case.

2. Other than Patrick LAU, it is recommended that Mr Alex LUI, a professor of the Chinese University be invited to join the BAC.

3. Currently Mr LUI is a member of the AP Registration Committee. From the attached records, it appears that Professor Lui has practical experience on the practice of an AP. I also note that he has also been involved in a seminar on Ridgeline Controversy recently.

4. I am totally happy if you wish to include Mr David LEE in the invitation list.

5. We need to act quick as the meeting has been scheduled on 1.8.2001. Subject to your agreement, I will get in touch with Mr. Lui.


(KMMO)
AD/NB1
30.7.2001

Direct Tel : 2830 5731
Direct Fax : 2907 4668
E-mail :

Our Ref : AL/L/004-05
Your Ref : CB(3)/PAC/R45

28 December 2005

Public Accounts Committee
Legislative Council
HKSAR

Attn : Ms Miranda Hon

Dear Ms Hon,

**The Director of Audit's Report on the
Results of value for money audits (Report No. 45)
Chapter 3: Development of a site at Sai Wan Ho**

In response to your letter dated 21 December 2005 [Ref.: CB(3)/PAC/R45], please see my reply to the question raised in your above letter as follows: -

“During my employment with Simon Kwan & Associates Ltd. from 1988 to 1998, the company was commissioned by Henderson Land Development Company Limited on three projects, and I was not personally involved in the running of these projects.”

A copy of your above letter has been forwarded to Mr Simon Kwan of Simon Kwan & Associates Ltd. He understands the purpose of the requested information and has agreed to release it to PAC.

I hope you would find this in order.

Yours truly,



Alex Lui

cc Simon Kwan & Associates Ltd – Mr Simon Kwan



YOUR REF 來函檔號 : CB(3)/PAC/R45
 OUR REF 本署檔號 : L/M (9) to BD(CR) FIN/12
 FAX 圖文傳真 : 2868 3248
 TEL 電話 : 2626 1133
 www.info.gov.hk/bd

16 December 2005

Ms Miranda HON
 Clerk to Public Accounts Committee
 Legislative Council
 Legislative Council Building
 8 Jackson Road Central
 Hong Kong

(Fax : 2537 1204)

Dear Ms Hon

**The Director of Audit's Report on the
 results of value for money audits (Report No. 45)**

Chapter 3: Development of a site at Sai Wan Ho

Thank you for your letter of 13 December 2005, requiring the details of the precedent cases prior to the case in question the situation of which was comparable to the Sai Wan Ho site.

We have taken the situation which was comparable to the Sai Wan Ho site as follows :

- (i) The lease conditions required the construction of a PTT in the development;
- (ii) The lease conditions did not specify whether the PTT should be or should not be included in GFA calculation under the lease conditions; and
- (iii) The relevant Outline Zoning Plan did not specify whether the PTT should be included in GFA calculation.

/... On

On the above basis we provide the details of the precedent cases at the Annex.

Yours sincerely

A handwritten signature in black ink, consisting of a large, rounded initial 'M' followed by a series of loops and a final flourish.

(K M Mo)

for Director of Buildings

c.c. SHPL	(Attn : Ms Olivia Nip)	[Fax : 2899 2916]
D of Lands	(Attn : Mr Patrick Lau)	[Fax : 2525 4960]
D of Plan	(Attn : Mr Bosco Fung)	[Fax : 2877 0389]
D of ArchS	(Attn : Mr Yue Chi-hang)	[Fax : 2810 7341]
D of Audit	(Attn : Mr Benjamin Tang)	[Fax : 2583 9063]
SFST	(Attn : Mr Martin Glass)	[Fax : 2523 5722]
DoJ	(Attn : Mr Raymond Chan)	[Fax : 2136 8277]
Mr LEUNG Chin-man		[Fax : 2870 1737]

Public Transport Terminus (PTT) Cases, the Situation of Which Was Comparable to the Sai Wan Ho Case

(A) Cases for which the Building Authority Approved the Exclusion of PTT from the GFA Calculation

	Location of PTT	Year of Occupation Permit Issued	Reasons for GFA Exclusion
1.	United Centre, Admiralty	1981	The PWD Conference in 1978 was of the view that the PTT was similar to MTR station entrances etc. of which bonus plot ratio was usually granted. The PWD Conference agreed to grant bonus plot ratio to make the sale of the site more attractive and hence increase the chance of getting the PTT.
2.	China Hong Kong City, Tsimshatsui	1988	The PTT was accepted for exclusion from GFA calculation under the then B(P)R 23(3) (i.e. current B(P)R 23(3)(b)).
3.	Scout Association, Austin Road, Tsimshatsui	1993	The PTT was accepted for exclusion from GFA calculation on the ground that the PTT was required by the Government.

(B) Cases for which the Building Authority Did Not Approve the Exclusion of the PTT from the GFA Calculation

	Location of PTT	Year of Occupation Permit Issued	Reasons for GFA Inclusion
1.	Cheung Sha Wan Plaza	1989	The PTT was not accepted for exclusion from GFA calculation on the ground that the PTT was not a use ancillary to the main office/shop use of the development.



YOUR REF 來函檔號 : L/M (9) to BD(CR) FIN/12 Pt. 4
OUR REF 本署檔號 : 2868 4174
FAX 圖文傳真 : 2626 1390
TEL 電話 :

31 December 2005

Ms Miranda HON
Clerk to Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

(Fax : 2537 1204)

Dear Ms HON,

**The Director of Audit's Report on the
Results of Value for Money Audits (Report No. 45)**

Chapter 3 : Development of a site at Sai Wan Ho (SWH)

Thank you for your letter of 21 December 2005.

As requested, I would like to provide the following information.

- (a) As explained in paragraph 2(b) of the letter from the Secretary for Housing, Planning and Lands to the Public Accounts Committee (PAC) dated 7 December 2005, the figure of around 1,000 residential flats represented the number of flats estimated in the notional scheme worked out by the Planning Department in 1998. The notional scheme was only to provide a rough estimate based on a set of planning assumptions. As there had been no submission of building plans in the SWH case which proposed 1,000 residential units, there is no carparking proposal based on such number of residential units.

The number of residential units proposed by the developer in the SWH case in the first and the latest submission of building plans for approval in 2001 and 2005 is 1,912 and 2,020 respectively. The number of carparking spaces for motor vehicles proposed in the two building plan submissions mentioned above is 478 and 505 respectively, representing an increase of 27 carparking spaces. These carparking spaces are located on L1/F, L2/F and L3/F of the development i.e. on floors above the public transport terminus (PTT) on G/F. Since the provision of the carparking spaces was found acceptable by the Transport Department in the various submissions of building plans, they were disregarded from gross floor area (GFA) calculation under regulation 23(3)(b) of the Building (Planning) Regulations (B(P)R). The increase in the number of carparking spaces had not led to any granting of bonus area to the developer.

(b) the detailed background information of the four cases mentioned in the Annex of my letter dated 16 December 2005 is as follows:

(i) Regarding how the land concerned was granted to the owners, the Lands Department has provided the following information:

Development	Method of Disposal
United Centre, Admiralty	Auction
China Hong Kong City, Tsimshatsui	Tender
Scout Association, Austin Road, Tsimshatsui	Private Treaty Grant
Cheung Sha Wan Plaza	Tender

(ii) The information on the process that had been gone through in arriving at the decisions; who made the decisions and the forums for making the decisions and detailed justifications for the decisions is set out in the Appendix.

(iii) Apart from the information previously provided on the above four cases and the SWH case, the United Centre case is dissimilar from the other cases in that its lease conditions have specified that the maximum plot ratio should not exceed 18 and that bonus GFA of an amount not exceeding five times of the area of the PTT would be granted.

Government would like to make it clear that the records of meetings are provided to the PAC as requested solely to facilitate the hearing of the PAC in this matter. This should not be taken, however, that Government would agree to the disclosure of the same in other circumstances. Furthermore, in view of the fact that leave has been granted for judicial review by Mr C M Leung, Government would also like to make it clear that the disclosure of the records of meetings to the PAC at PAC's request is entirely without prejudice to the Director of Audit's legal position in the said legal proceedings and is without any admission whatsoever of any issues raised by Mr Leung in the said legal proceedings.

Yours sincerely,



(S W HUI)
for Director of Buildings

cc Secretary for Housing, Planning and Lands
 Director of Lands
 Director of Planning
 Director of Architectural Services
 Secretary for Financial Services and the Treasury
 (Attn. Mr Martin GLASS)
 Director of Audit
 Department of Justice
 Mr LEUNG Chin-man

**Decision-making Process of the Four Cases, in which
the Building Authority Approved/did not Approve the
Exclusion of Public Transport Terminus (PTT) from the
Gross Floor Area (GFA) Mentioned in the
Annex of BD's Letter dated 16 December 2005**

Introduction

Chief Building Surveyors (CBS) and the Principal Government Building Surveyor (PGBS) are authorized among other officers by the Building Authority to carry out the duties and exercise the powers under the Buildings Ordinance, including the approval of building plans and the exclusion/inclusion of the PTT from GFA calculation under regulation 23(3) of the Building (Planning) Regulation (B(P)R). In case of doubt or where complicated issues or appeals were involved, the CBS would refer the case to the Building Committee, the Building Authority Conference or the Building Authority personally to seek a decision.

1. United Centre, Admiralty

- The decision to exclude the PTT from GFA calculation was made by the then Director of Public Works who was the Building Authority as described in the paper and minutes of the Public Works Department (PWD) Conference held on 20.4.1978. Copies of the paper and minutes of the PWD Conference are enclosed at Annex 1.
- The PWD Conference agreed that bonus plot ratio should be granted for the surrender of the bus terminus to be completed on the lot in order to make the sale of land more attractive and hence increase the chance of getting the bus terminus.

2. China Hong Kong City, Tsimshatsui

- The decision to exclude the PTT from GFA calculation was made by the CBS as Head of the Kowloon Section as recorded in the file minute dated 18.3.1986. A copy of the file minute is enclosed at Annex 2.

- The reason for excluding the PTT from GFA calculation was that the CBS was of the view that the PTT could be discounted from GFA calculation under the then regulation 23(3) of B(P)R (i.e. the existing regulation 23(3)(b)) which provided that floor space constructed or intended to be used solely for the parking, or for the loading or unloading of motor vehicles might be excluded from GFA calculation.

3. Scout Association, Austin Road, Tsimshatsui

- The decision to exclude the PTT from GFA calculation was made by the Chairman of the Building Committee, who was the then PGBS as shown in the record of meeting dated 19.4.1988. A copy of the record of Building Committee meeting is enclosed at Annex 3.
- The reason for excluding the PTT from GFA calculation was that it was considered that the PTT was a facility required by the Government.

4. Cheung Sha Wan Plaza

- The decision to exclude the PTT from GFA calculation was made by the Chairman of the Building Committee, who was the then PGBS as shown in the records of meetings dated 17.3.1987 and 5.5.1987. Copies of the records of Building Committee meetings are enclosed at Annex 4.
- The reason for including the PTT in the GFA calculation was that the Building Committee was of the view that the bus terminus was not a use ancillary to the main office/shop use of the development.

**Note by Clerk, PAC: Annexes 1 to 4 not attached.*

電郵地址 Email: dofl@landsd.gov.hk

電話 Tel: 2231 3000

圖文傳真 Fax: 2868 4707

本署檔號 Our Ref: LD 1/2/HKE/LS/98 III (TC)

來函檔號 Your Ref: CB(3)/PAC/R45



地政總署
LANDS DEPARTMENT

Urgent By Fax

15 December 2005

Ms Miranda HON
Clerk to Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong
[Fax: 2537 1204]

Dear Ms Hon,

**The Director of Audit's Report on the
Results of Value for Money Audits (Report No. 45)**

Chapter 3: Development of a Site at Sai Wan Ho

I refer to your letter of 13 December 2005 and provide herewith the requested information in the following attachments:

- | | |
|--------------|---|
| Attachment A | The computation of the total domestic GFA at 107,950m ² . |
| Attachment B | The correspondence exchanged between LandsD and the relevant Government departments on the new layout of the Control Drawing. |
| Attachment C | The calculation of the premium of \$6.0 million and the basis for charging it. |

Yours sincerely,

(Patrick Lau)
Director of Lands

Encl.

c.c. Secretary for Housing, Planning and Lands
Director of Buildings
Director of Planning
Director of Architectural Services
Secretary for Financial Services and the Treasury (Attn: Mr Martin GLASS)
Director of Audit
Department of Justice (Attn: Mr Raymond Chan)
Mr Leung Chin-man, JP

**Note by Clerk, PAC: Attachment B not attached.*

LandsD's Computation of Total Domestic GFA at 107,950m²

	<u>Area</u>	<u>Remarks</u>
Site Area	12,200m ²	[a]
Area III referred to Figure 2 of Audit Report (p.27)	194m ²	[b]
Site Classification	"C"	
Site Area for Plot Ratio (PR) calculation	12,006m ²	[c = a - b]
Maximum domestic PR under Building (Planning) Regulation	10	[d]
Maximum non-domestic PR under B(P)R	15	[e]
Proposed non-domestic GFA	18,166m ²	[f]
Proposed non-domestic PR	1.5131	[g = f/c]
Maximum remaining domestic PR	8.9913	[h = (e - g)/e x d]
Maximum domestic GFA	107,950m ²	[i = h x c]

Source: Lands Department

**The Calculation of the Premium of \$6.0 million
and the basis for charging it**

- (i) The premium of \$6.0 million was arrived at by assessing the current value of the lot with ("after" value) and without ("before" value) the benefit of the consent to amend the control drawing to reflect the encroachment of the Public Transport Terminus into the reserved areas.

"After" Value

This was assessed on the basis of a development with a domestic gfa of 123,036.16m² valued at \$2,708.40 million.

The 123,036.16m² gfa was arrived at as follows :-

Proposed non-domestic PR 0.2058 (i.e. 2,511m²),

Max remaining domestic PR 9.8628 (15 - 0.2058/15 x 10)

Premium accountable bonus gfa 2,710m² (5 x 542m²)

[PTT within reserved area 1,419m² - extension of MPOA area
(2,127 - 1,250) = 542]

Max domestic gfa 120,326.16 (12,200 x 9.8628)

Total domestic gfa 123,036.16 (120,326.16 + 2,710)

"Before" Value

This was assessed on the basis of a development with a domestic gfa of 119,657.6m² and a non-domestic (shop) gfa of 1,387m² valued at \$2,702.43 million.

The domestic gfa was arrived at as follows :-

Proposed non-domestic PR 0.288

Max remaining domestic PR 9.808 (15 - 0.288/15 x 10)

Domestic gfa 119,657.6 (12,200m² x 9.808)

The premium was thus	After Value	\$2,708.40
	Before Value	<u>\$2,702.43</u>
	Premium	<u>\$5.97</u>

As an offer of \$6.0 million had been made by the developer, it was accepted.

The basis for charging the premium has been set out in the first two sentences of paragraph 4.24 and paragraph 7.24(c) of the Director of Audit's Report.

- (ii) We are not aware of any precedent cases involving payment of fees for consent to amend a control drawing attached to the conditions of sale. The basis for the assessment, i.e. the difference between the current values of the lot with and without the benefit of the consent, accorded with the basis for calculating premium for lease modifications.
- (iii) The premium was not calculated according to the value of the floor area involved based on the premium at which the site was sold because the established principle in calculating premium for lease modification is to assess the increase in current values.

Lands Department
December 2005

Building Authority Conference

**Minutes of the 6/02 Meeting
held on Wednesday, 23 April 2002 at 3:15 pm
in DB's Office**

Present	:	Chairman	
		Mr C M LEUNG	BA
		Members	
		Mr H W CHEUNG	DD
		Mr K M MO	AD/NB1
		Mr C K AU	AD/Sup
		Mr C C TSANG	AD/EB2
		Secretary	
		Ms Pauline PANG	BS/TS3
In attendance	:	Mr K K LING	DPO/HK, PlanD
		Mr S J McMillan	SES/2, LandsD
		Mr Ernest WONG	ES/SKW, LandsD
		Mr David NG	E/E3G, TD
		Mr W K AU YEUNG	E/D(NP), HyD
		Mr K P CHOW	CBS/HKE

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Meeting No.: 06/02 (23.4.2002)

Case No.: BAC 6/02

Address: Sai Wan Ho Ferry Concourse, Sai Wan Ho, Hong Kong
I.L. 8955

File Reference: BD 2/3002/01

Subject Matter: Dedication of G/F areas for Public Transport Terminus use under
B(P)R 22(1)

1. CBS/HKE tabled the G/F plan and the Control Drawing of the development. He briefed Members on the background as follows :
 - (a) The proposed development comprised 5 residential tower blocks over a 6-storey podium with a Marine Police Operation Area (MPOA) and a Public Transport Terminus (PTT) (which consisted of a Public Transport Interchange (PTI) and a Cross Boundary Coach Terminus (CBCT)) on the G/F. The layout and the design of the MPOA and PTT were governed by the Technical Schedules and the Control Drawing under the lease conditions. According to the Control Drawing, some areas on the G/F would be reserved for entrance lobbies and other facilities for upper floors (the “reserved areas”).
 - (b) In connection with a revised layout of the MPOA and PTT, BAC 5/01 on 1.8.2001 accepted the proposed dedication of the ‘reserved areas’ to form part of the PTT in return for bonus plot ratio (PR) subject to that the layout of the PTT was acceptable to all relevant government departments and that the owner would not seek any further compensation from the Government. Building plans were subsequently approved on 1.9.2001 with bonus PR being granted in accordance with B(P)R 22(1).
 - (c) DLO/HKE, LandsD commented in their letter of 7.2.2002 that the proposed dedication of the “reserved area” was not required from their point of view as the concerned departments including TD, HyD and ArchSD had confirmed that the Control Drawing could cope with the government accommodation requirements in the Technical Schedules. In addition, based on his legal advice, the Government could revise the Technical Schedules and the Control Drawing without compensation. Therefore, he requested BD to consider withdrawing the granting of the bonus PR.
 - (d) Foundation works had been completed in February, 2002 and pile cap works were now in progress on site.

2. SES/2, LandsD briefly explained to Members of their concern on the granting of the bonus PR by BD. He said that the developer had made an application to LandsD for amendments to the Technical Schedules based on the argument that the Control Drawing could not cope with the requirements set out in the Technical Schedules.
3. SES/2, LandsD also apologized for their late advice as mentioned in para. 1(c) due to the belated comments from the concerned technical departments on the proposed revised layout of the PTT. ArchSD had commented that the MPOA could be constructed in accordance with the Technical Schedules, and that the proposed deviation from the Control Drawing stemmed from the lot owner's design to accommodate not the government accommodation but the rest of the development. It was the view of ArchSD that the developer was not entitled to any claims arising, or to be risen out of any deviations from the original Technical Schedules and the Control Drawing.
4. SES/2, LandsD pointed out that the Control Drawing was marked "for information only" and "Not to Scale". The purpose of the Control Drawing was not for dictating the layout of the future development and demarcating the specific areas that the Grantee was entitled to use. As the Control Drawing was not drawn to scale, SES/2, LandsD had doubts on how the area for the bonus PR was determined.
5. E/E3G, TD opined that the PTI and CBCT could be constructed in accordance with the Technical Schedules. He tabled a sketch showing the surplus areas designated for planting and circulation purpose within the PTT as proposed by the AP. He added that by deducting the said surplus areas, the resultant areas of the proposed PTT would be similar to that as stipulated in the Technical Schedules.
6. E/D(NP), HyD concurred with the view of E/E3G, TD that the PTI and CBCT could be constructed in accordance with the Technical Schedules and the Control Drawing. From maintenance point of view, he had no objection to the proposed deviation from the Control Drawing provided that a physical demarcation between PTI/CBCT and developer's areas could be clearly defined to the satisfaction of HyD.
7. DPO/HK, PlanD confirmed their previous advice to BAC 5/01 that from the planning point of view, the proposed PTT would be an improvement to the one shown on the Control Drawing in terms of operation and environmentally friendly design. He supported the dedication of the 'reserved areas' in return for bonus PR.
8. Members exchanged views and had the following observations :
 - (a) The Control Drawing was only a preliminary sketch indicating the disposition of the different accommodation on G/F. Together with the Technical Schedules, they set out the minimum requirements of the government accommodation.
 - (b) Both the Control Drawing and the Technical Schedules formed part of the lease which was a legally binding contractual agreement between the owner and the Government. SES/2, LandsD agreed that while it would be a matter for LandsD to decide whether the developer would be entitled to any compensation under the lease, it would be another matter for the BA to decide whether any concessions would be given in the form of bonus PR under BO.

- (c) The surplus areas of the proposed PTT as pointed out by E/E3G, TD in para. 5 were in fact designated either as landscaped area or circulation space which served to improve the environment, and both the vehicular and pedestrian traffic flow respectively.
 - (d) DPO/HK, PlanD had confirmed that the proposed layout would be an improvement to that of the Control Drawing from planning point of view as detailed in para. 7.
 - (e) The layout of the proposed PTT was technically acceptable to all concerned departments.
 - (f) Members agreed that the provision of landscaped areas and a larger area of PTT as a result of the proposed layout would benefit the public. It would serve the public interest to accept the dedication of reserved areas at G/F as proposed by the AP. Furthermore, the developer should be entitled to bonus PR under the B(P)R 22(1) in return for the dedication of such areas which could otherwise be used for other purposes.
9. Having considered all the relevant issues, Conference advised and the Chairman agreed to uphold the previous decision of BAC 5/01 in accepting the proposed dedication of the “reserved areas” for use as a PTT and granting the bonus PR subject to an undertaking from the owner that he would not seek further compensation from the Government.

民 眾 安 全 服 務 處

香港加路連山道一百號



CIVIL AID SERVICE

100 CAROLINE HILL ROAD,
HONG KONG.

本處檔號 Our Ref.: (30) in CAS 1/25/05 (C) II

來函檔號 Your Ref.: CB(3)/PAC/R45

圖文傳真 Fax No.: 2895 3284

電 話 Tel.: 2805 6056

By Fax & by E-mail

12 December 2005

Ms Miranda HON
Clerk of Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central, Hong Kong
(E-mail : cwywong@legco.gov.hk)
Fax : 2537 1204)

Dear Ms Hon,

**The Director of Audit's Report on the
results of value for money audits (Report No. 45)**

Chapter 5: Operation and training of the Civil Aid Service

Thank you for your letter of 3 December 2005 regarding the information requested by the Public Accounts Committee on the captioned report.

Attached hereto is the response of the Civil Aid Service in English and Chinese for consideration of the Public Accounts Committee. The response has been cleared by the Secretary for Security.

Yours sincerely,

(Robert M K Chan)
Chief Staff Officer
Civil Aid Service

cc S for S (Attn: Mr Charles Wong)
Commissioner, CAS.
Director of audit

**The Director of Audit's Report on the
results of value for money audits (Report No. 45)
Chapter 5: Operation and Training of the Civil Aid Service**

Information requested by the Public Accounts Committee (PAC)

1. Usage Rate of the Four Training Centres

PAC's Concern

- According to para 5.5 of the Report, the average usage rate of the four training centres, i.e.
 - the CAS Headquarters in Causeway Bay,
 - the CAS Hong Kong Training Centre in Causeway Bay
 - the CAS Kowloon Training Centre in Kowloon City; and
 - the CAS Cadet Training Centre in Hung Homwas 23%
- The PAC is concerned about the low usage rates of these centres.

CAS's Response

- As noted by the PAC from para 5.7(a) of the Report, CAS will return the CAS Kowloon Training Centre and the CAS Cadet Training Centre in mid-2006 to the Government Property Agency (GPA) upon the reprovisioning of the CAS Headquarters to the West Kowloon Reclamation.
- The CAS is not a full-time force. Most members have full-time jobs and they serve with the CAS mainly outside normal office hours. Training venues are more likely to be "under-utilized" if the normal value-for-money formula is applied in assessing their cost-effectiveness.
- The CAS has in fact been sharing its training venues with other government departments, educational institutes and Youth Uniformed Groups; and will continue to do so to maximize the use of these venues.

2. Usage of the CAS Hong Kong Training Centre

PAC's Query

- Given that the usage rate of the morning session of the CAS Hong Kong Training Centre in Causeway Bay was only 4%, PAC would like to know
 - the measures that will be taken by CAS to increase the usage of the Centre; and
 - whether CAS will consider returning the Centre to GPA in view of its low usage; if not, the reasons for retaining it.

CAS's Response

- As explained above, members serve with the CAS mainly outside normal office hours. Hence the usage rate of the morning session of the CAS Hong Kong Training Centre was low.

- The following actions are being taken with a view to increasing the usage rate of the Hong Kong Training Centre and also reducing the number of training venues-
 - With effect from 1 December 2005, the Hong Kong Training Centre has become the training venue for all the four Companies of the Hong Kong Region. Arrangements are being made to return to GPA the training venues in Chai Wan and Aberdeen vacated by two of the above Companies.
 - The Hong Kong Training Centre is equipped with purpose-built facilities for conducting training on mountain rescue, vertical rescue and work safety at height. Other government departments, e.g. FSD, HKPF and C&ED, will be invited to conduct training at the Training Centre during the morning session.
- There is an operational need for the CAS to retain the Hong Kong Training Centre because it is the operational base of the CAS for all operations in Hong Kong Island, including emergency operations such as those during natural disasters.



法律援助署
Legal Aid Department

本署檔號 Our ref: LA/ADM/55/29(C) IV
來函檔號 Your ref: CB(3)/PAC/R45
電話 Tel: 2867 3010
圖文傳真 Fax: 2877 5122

Clerk , Public Accounts Committee,
Legislative Council,
Legislative Council Building,
8 Jackson Road,
Hong Kong.

1 December 2005

(Attn: Ms. Dora Wai)


Dear Ms. Wai,

**The Director of Audit's Report on the
Results of value for money audits (Report No. 45)
Chapter 7: Recovery of legal costs by the Legal Aid Department**

Thank you for your letter dated 24 November 2005.

----- I enclose my response to the questions raised by the Public Accounts Committee.

Yours sincerely,


(Benjamin Cheung)
Director of Legal Aid

c.c. Director of Administration (Attn.: Mrs. Alice Cheung)
Director of Accounting Services
Secretary for Financial Services and the Treasury (Attn.: Mr Vincent Chuk)
Director of Audit

Encl

Director of Legal Aid's Response to the Questions raised by PAC

Costs recovery of the legal aid schemes

- (a) The suggestion for LAD to prepare income and expenditure statements for OLAS cases similar to those for SLAS is closely related to the proposal under item (f), regarding accrual accounting and we have provided our consolidated reply under item (f).
- (b) Reasons for discontinuing the provision of percentage recovery
- As pointed out in the Audit report, LAD has since 1995-96 discontinued the preparation of statistics on “amount of damages, maintenance and costs recovered as percentage of total amount due to department and aided persons”. It was accepted that there is no direct relationship between LAD's performance and the damages/costs recovery ratio. A higher or lower ratio in a year could not serve as a relevant or reliable indicator of LAD's performance in that year. The recovery ratio is indeed affected by many external factors beyond the control of LAD. The most pertinent ones being the nature of the cases involved, the financial circumstances of opposite parties and the general economic situation in Hong Kong, as elaborated below:
 - (i) Case nature: Experience shows that full recovery of damages and costs is more likely or achievable only in personal injuries claims because most if not all of the opposite parties are insured. Also, in some cases, payment is underwritten by bodies such as the Employees Compensation Assistance Fund Board and the Motor Insurers' Bureau.
 - (ii) Financial circumstances of opposite parties: Take for instance the legal costs written off in 2004-2005. About 92% of the amount written off are attributable to two types of cases, namely wages claims against insolvent employers (at \$38M, or 61%) and matrimonial cases (at \$ 19.4M, or 31%). For insolvency cases, by nature, the chance of recovery is very slim since the employers who are the judgment

debtors are invariably financially insolvent, and are the subjects of either a bankruptcy or winding-up order. As for matrimonial cases, many of the judgment debtors faced similar financial difficulties as our aided persons, often unemployed or of low income and their financial well-being is particularly susceptible to changes in the economic conditions in Hong Kong.

- (iii) The impact of the economic situation in Hong Kong on costs recovery rate is best illustrated by the drastic drop in the write-off amount for the first 6 months of 2005-06, at \$18.3M, which is 45% less than that in the same period in 2004-05. This helps to show that judgment debtors in legally aided cases are particularly vulnerable to the economic downturn in the past few years and explain their failure to pay costs due to aided persons.

To disclose these statistics to the public in future

- We have explained the above to Audit during its study and took it that Audit has accepted our explanation, as we note that Audit has removed from its recommendations in paragraphs 2.21 its original proposal for LAD to re-introduce the compilation of the percentage recovery statistics. The replacement proposal now set out in paragraph 2.21(a) for LAD to identify additional indicators for evaluating the efficiency and effectiveness of legal aid services is accepted by LAD on this understanding.
- Notwithstanding this, since PAC is concerned, LAD will make available the information to the public.

(c) Statistics on payment of legal costs to the opposite party

- Similar to the issue of recovery of legal costs from opposite parties in (b) above, the amount of legal costs paid to opposite parties bears no direct relationship with and provide little information on the performance of LAD: by law, legal aid should be granted where there is a reasonable case for court proceedings. It is not our policy objective that legal aid is granted only to a cast-iron case. Neither would it be appropriate to use the outcome of court cases or amount of legal costs paid to opposite parties as LAD's performance indicator.

- We thought that by excluding from its Recommendations now in paragraphs 2.21 its original proposal on the requirement for statistics of payment of legal costs to opposite parties, Audit has accepted our explanation. Rather, paragraph 2.21(a) only contains a new recommendation that LAD should identify additional indicators for evaluating the efficiency and effectiveness of legal aid services, to which LAD has agreed as indicated in paragraph 2.22(a) of the Audit Report.
- The above notwithstanding, since PAC is concerned, LAD will provide the information to the public.

(d) Additional indicators to evaluate efficiency and effectiveness

- We have already agreed to the Audit's recommendation to identify additional indicators and have been actively exploring various alternatives since, drawing reference from experiences of overseas legal aid authorities. We shall keep PAC informed of developments.

(e) Computerized staff time-charging system

- The computerized staff time-charging system commonly adopted by professional firms is to record the staff time expended in each case and the staff cost incurred, for the purpose of cost management and billing arrangements.
- LAD has in place a similar computerized system, namely the time-costing programme, in respect of areas of work for which costs are chargeable for in-house litigation cases. The objective of this system is to support costs assessment and generate bills of costs similar to the arrangements in professional firms in private practice.

(f) Prepare financial statements for OLAS cases similar to those in SLAS

- The issue here is the difference between cash-based accounting and accrual based accounting, a subject not just relevant to the legal aid schemes but also the Government accounting arrangement as a whole. As PAC will note, the Government's General Revenue Account adopts cash-based accounting.

- As background, we should explain the fundamental difference in nature and in the mode of operation of OLAS and SLAS. SLAS, operated on a contingency fund basis, is set up as a self-financing scheme. The successful aided person pays a percentage of the damages recovered to the SLAS Fund, which are to support the administration cost and other cases under SLAS, to maintain its self-sufficiency.
- On the other hand, OLAS, like many other government services, is a form of public service which incurs expenditure on the Government. Though it also receives payments, its objective is not to make a profit or surplus. And indeed, it can never make a profit. The design of OLAS is such that LAD can at best recoup only the expenses it paid out for the purpose of the legal aid proceedings. LAD bears the entire cost for processing applications and their subsequent monitoring. Against the above background, the expenditure of OLAS should not, as a matter of principle, be used as a benchmark to measure the success or otherwise of the scheme, bearing in mind the policy objective for OLAS is to ensure no one with a reasonable case for pursuing or defending legal proceedings should be denied access to court because of lack of means.
- The current cash-based presentation of financial information on OLAS in the Annual Estimates is in line with the format adopted by other departments in the Estimates in respect of services provided to the public. Under the cash-based accounting principle, legal aid costs incurred for OLAS are recorded on a rolling basis and a position at a point in time/in a period of time is shown in the Annual Estimates with the primary aim of monitoring the expenditure of legal aid costs to ensure the expenditure stays within the approved estimates. Similarly, the costs recovered from legal aid cases for a financial year are also recorded on a rolling basis and a position at a point in time/in a period of time is also shown in the Annual Revenue Estimates. It is however not necessary to match the actual income and expenditure in order to ascertain the surplus or deficit as OLAS is not a self-financing scheme and will never make a profit.
- As for SLAS, because of its self-financing nature, it is of the greatest importance to ensure the financial well-being of the fund at all times. To this end, the financial statements for SLAS, differ from the usual format for other government services including OLAS and are prepared on an accrual

basis. The statement of income and expenditure shows income and expenditure for a financial year on accrual basis so as to identify surplus or deficit for that year. Some of the income/expenditure are directly related to the finalized cases (e.g. payment from aided persons out of damages recovered from finalized cases, legal costs and disbursements incurred in the finalized cases); some do not (administration cost incurred in processing and monitoring, bank interest and charges). The balance sheet shows the accumulated balance of the fund as at end of the financial year. Similar accounting arrangements are also adopted for other Government funds which are run on a self-financing basis, for instance, the trading fund operated by trading fund departments.

- In light of the above, it would not be cost-effective or appropriate to adopt the accrual-based accounting principle and prepare financial statements for OLAS cases on a par with the accounting arrangements in respect of SLAS. Reasons are -
 - As stated above, OLAS is not a self-financing scheme and, given the nature of OLAS, the costs incurred will invariably exceed the income. Preparing financial statements similar to SLAS, the main purpose of which is to show the surplus/deficit position so that LAD can monitor the viability of the fund, will not provide additional meaningful or useful information to both LAD and the users.
 - The current cash-based accounting principle adopted for OLAS is in line with service wide arrangements. We have consulted the Director of Accounting Services who also advises that the present different formats of the financial statements for OLAS and SLAS are in line with the accounting policy of the government for monitoring the financial aspects of the two legal aid schemes.
 - The use of the accrual-based accounting involves an overhaul of LAD's current system. For instance, apportioning the staff costs for processing and monitoring thousands of cases, staff (officers and clerical alike) will need to clock their activities and input the time into the system even though the costs are not to be recovered, the current Case Management and Case Accounting System has to be overhauled. Additional resources implications for enhancement of the system would be significant and that the time taken for staff to clock and input the time spent on every piece of work they carry out into the system will inevitably hamper the

efficiency and effectiveness of the services provided to the public if there is no additional staff provided.

- As the Government still adopts cash-based accounting for its General Revenue Account, it means that LAD would have to run both systems in parallel. The existing accounting support resources (one Treasury Accountant and one Accounting Officer I) will have to be increased significantly to undertake the large volume of extra work generated.
- We note that with our explanation above, Audit decided not to include in its Recommendations in paragraphs 2.21 of the Audit Report its original proposal for the adoption of such accounting arrangements.

Enforcement proceedings against judgment debtors

- We would firstly like to explain that when it comes to taking enforcement proceedings, LAD is acting as solicitors of aided persons in civil proceedings. That being the case, LAD owes a duty to act professionally not only to the aided person but also to the court. Costs and disbursements incurred in the enforcement proceedings may only be recovered from the opposite party if we can demonstrate to the court that it is proper and necessary to incur them, and that the amounts incurred are fair and reasonable. The need for and the frequency of conducting searches under items (g) and (h) below must therefore be determined by the facts of the cases in question. Since each case is different, action should be taken only where the circumstances of a particular case warrant it. It is also noteworthy that, for costs that cannot be recovered from the opposite party, they will be borne by the aided person where property has been recovered or by the public fund in other cases. Hence, there is a need to be prudent in conducting enforcement proceedings.
- (g) Conduct periodic searches for judgment debtors' addresses with all relevant government departments and Hospital Authority, in computer readable form, which may have such information
- LAD has indeed been sending requests to all relevant government departments and the Hospital Authority if, based on the facts of the cases in question, there are reasons to believe that these departments/agencies may

have the required information. We wish to assure PAC that we will continue to exercise our professional judgment with due care and make our best endeavours in this regard.

- Regarding the form of delivery, LAD has already been sending requests in electronic forms and templates wherever possible. We will continue to do so.
 - As explained above and in paragraph 4.13 of the Audit report, we wish to highlight that in making the relevant searches, we should exercise prudence in deciding what is the 'relevant' organization that may have the information required for the specific case in question, bearing in mind that –
 - the costs of the searches may need to be borne by the aided person where property has been recovered or by the public fund and we should hence minimize unnecessary searches and reduce related costs. If LAD is to conduct all the searches with the departments/agencies referred to in paragraph 4.9 of the Audit report, the costs of the searches will come to about \$3,500 for each case;
 - the work involved, not only in respect of LAD, but also of the receiving departments, could be substantial if such searches are conducted indiscriminately or as a matter of course, bearing in mind there are a large number of such searches ongoing at any one time. For example, there are currently about 370 address searches being conducted each month. The cumulative effect and hence the workload for the departments/agencies on the receiving end would be significant and it is imperative that LAD should be prudent and ensure that the searches are relevant and likely to be useful before we require the departments/agencies to devote resources to facilitate the searches. For instance, we should not insist on a particular area of search if the instructions given by the aided person and the information to LAD already show that a department/agency does not possess or cannot provide the information required.
- (h) Conduct searches for assets and income of judgment debtors at the Land registry, Companies registry, Business registration Office and Transport Department for cases other than those with sufficient and clear reasons for write-off

- We wish to clarify that LAD will only write off outstanding costs when there are sufficient reasons for doing so. As the costs of the searches may need to be borne by the aided persons or the public fund eventually, we have reservations about indiscriminate searches on an across-the-board basis, without paying due regard to the facts of the case. Nevertheless, LAD would like to assure PAC that the Department will endeavour to conduct relevant and appropriate searches among identified departments, with due consideration given to the circumstances of the case.

(i) Checklist of enforcement actions to help staff document the actions taken (including the results) and the reasons for not pursuing certain courses of actions

- In determining the mode of recovery action for a particular case, the professional officer has to assess the prospect of success of such action and which mode is the most cost-effective, subject to the circumstances of the case because, as explained above, we owe a professional duty not only to the aided person but also to the court. Indeed, we note that Audit has excluded from its Recommendations in paragraph 4.24 its original proposal on the requirement for the above check-list of enforcement actions.
- The above notwithstanding, we will heed PAC's concern and consider the format and effective use of such a checklist of enforcement actions before writing off outstanding costs.

Administration of outstanding and irrecoverable legal costs

(j) To include in the annual return on arrears of revenue (under SAI 1020) the outstanding legal costs awarded to the aided person

- To enhance public accountability and to facilitate monitoring, we agree with the Director of Accounting Services on the need for the LAD to compile annual returns on the outstanding legal costs awarded to aided persons.
- Taking into account the legal position, as confirmed by legal advice of DOJ, that costs due from an opposite party are costs due to the aided person and not to the Government, it would not be appropriate to report such amounts in the specific annual return on arrears of revenue (under SAI 1020) due to

Government.

- An alternative and pragmatic way forward could be for LAD to devise, as set out in paragraph 5.16 of the Audit Report, appropriate reports to the Director of Accounting Services to achieve the same objectives underlined by Audit. In this regard, we also note the Secretary for Financial Services and Treasury's advice, as stated in paragraph 5.17 of the Audit Report, that LAD may consider including the amounts in other suitably formatted reports. Hence the proposed alternative report to Director of Accounting Services.
- We are grateful to the Director of Accounting Services who, in her reply to PAC of 1 December 2005, has offered to work with LAD to design a specific form for use, to cater for the special circumstances of LAD. We will work with DAS closely and are confident that we will be able to develop a mutually agreeable format for LAD to report on outstanding legal costs awarded to aided persons in future.
- We will keep PAC informed of the progress.

(k) Provision of list of legal aid cases with outstanding legal costs to be recovered as at 31 March 2005

- For PAC's information, LAD and Audit have had detailed discussions on the specific cut-off or point in time that legal costs due to an aided person should be regarded as outstanding legal costs to be recovered. This is because there are many outside but complex issues that will affect the progress and outcome of a particular case. For instance, an opposite party may appeal against the costs order or the court order as a whole, the amount of costs has to be agreed or assessed by the court, or the opposite party may seek a review even after the court has determined the costs after taxation.
- In light of the above, we have explained to Audit that we may arrive at the outstanding costs to be recovered only when an opposite party has agreed to pay the costs by signing an undertaking or has been ordered by the court to pay the costs by instalments. It is on this basis that Table 6 of the Audit Report is prepared to capture the amount of outstanding legal costs to be recovered at a specific timeline of 31 March 2005.

The Audit Commission's access to legal aid case files

(l) Photocopies of case files

- We would first of all wish to assure the PAC that, as we have undertaken in paragraph 6.13 of the Audit report, we will continue to facilitate access by Audit to our case files even for cases to which the legally aided persons have not granted us their consent for such disclosure. In these cases, the Department stands ready to make photocopies of the case files with all personal data obliterated. This would serve to balance the need for Audit to have access to case files to conduct value for money audit, whilst observing the need to respect the fundamental right of privacy of aided persons.
- As to the incident referred to in paragraph 6.9 of the Audit Report, we wish to explain that LAD has on no occasion refused to photocopy the case files. We consider it helpful to provide some further background leading to this particular incident so as to dispel possible misunderstanding.
- While the discussion of the possibility of making photocopies of case files took place in February 2005, Audit requested on 26 April 2005 to have the files for 513 cases for inspection, with a request that the files should be provided within a month's time, i.e. by 26 May 2005. LAD immediately began to seek consent from the 500 odd aided persons to disclose to Audit their case files. In view of the fact that Audit might require photocopies of those files where the aided persons had refused to give consent, we invited Audit to consider, before it made a decision, the resource constraints for LAD to provide the large volume of case files, with all the personal data removed manually. We also appealed to Audit that should they decide to have photocopies of case files, the number of such case files be kept to a manageable size.
- We hope PAC would appreciate that LAD stands ready to cooperate and facilitate Audit's VFM study as always, but the Department also faces the issue of limited resources. Nevertheless, we would use our best endeavours within this reasonable remit.

(m) To set up an independent team to examine the case files selected by Audit where consent of the aided persons has not been given

- LAD has engaged its internal audit team to examine the case files in question with a view to identifying non-compliance with the relevant LAD's guidelines and areas for improvement. We will keep PAC informed of the progress in due course.



庫務署 The Treasury

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1 December 2005

Clerk, Public Accounts Committee
(Attn : Ms Dora WAI)
Legislative Council
8 Jackson Road
Hong Kong

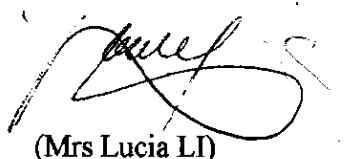
Dear Ms WAI

**The Director of Audit's Report on the
Results of value for money audits (Report No. 45)
Chapter 7 : Recovery of legal costs by the Legal Aid Department**

Thank you for your letter dated 24 November 2005.

To facilitate monitoring, I re-affirm my view that the Director of Legal Aid should provide me with an annual return on the outstanding legal costs awarded to aided persons. Taking into account the special circumstances of LAD, we will work with the Director of Legal Aid to design a specific form for them to use in future reports to the Treasury on outstanding legal costs awarded to aided persons.

Yours sincerely,



(Mrs Lucia LI)

Director of Accounting Services

cc Director of Administration (Attn : Mrs Alice Cheung)
Secretary for Financial Services & the Treasury (Attn : Mr Vincent Chuk)
Director of Audit
Director of Legal Aid



食物環境衛生署署長
Director of
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來函檔號 Your Ref : CB(3)/PAC/R45

12 December 2005

(By fax: 2537 1204)

Clerk, Public Accounts Committee
Legislative Council
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. 45)**

**Chapter 8: The Government's efforts in
developing sustainable systems to keep Hong Kong clean**


Thank you for your letter of 5 December 2005.

We shall shortly conduct a review of the Incentive Scheme for Hygiene Improvement in Food Premises to identify possible causes leading to the poor response. The review will include meeting trade representatives to hear their views on how the Scheme could be improved to encourage participation with a view to enhancing the environmental hygiene conditions of food premises. Possible improvement measures could include revising the maximum loan amount and/or the percentage of the total refurbishment cost that could be funded under the Scheme, lengthening the repayment period, and extension of the scope of works covered by the Scheme.

For your information, as an incentive to encourage early participation in the Scheme, the Government originally proposed a cash subsidy in addition to the loan for the successful applicants in the first round of applications. The cash subsidy proposal was later dropped after consulting the LegCo Panel on Food Safety and Environmental Hygiene in January 2004.

We aim to complete the review in the first quarter of 2006 and will report back to the relevant committee/panel of the Legislative Council as appropriate.

Yours sincerely,



(Gregory LEUNG)

Director of Food and Environmental Hygiene

c.c. Secretary for Health, Welfare and Food (Attn. : Mr. Eddy Chan)
Director of Audit