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29 October 2015

The President of the Legislative Council,
Legislative Council Complex,
Hong Kong.

Sir,

In accordance with the paper tabled in the Provisional Legislative Council on 11 February 1998 on the Scope of Government Audit in the Hong Kong Special Administrative Region — ‘Value for Money Audits’, I have the honour to submit my Report No. 65 on the results of value for money audits completed in accordance with the value for money audit guidelines laid down in the paper. These guidelines are also attached.

Yours faithfully,

David Sun

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The Director of Audit's Report No. 65 contains the following chapters:

Chapter	Subject
1	Government's efforts in managing municipal solid waste
2	Reduction and recycling of food waste
3	Use and disposal of vacant school premises
4	Burial and cremation services
5	Operation of the Hongkong Post
6	Efforts of the Narcotics Division and Beat Drugs Fund in combating drug abuse
7	Protection of revenue on dutiable commodities and motor vehicle first registration tax
8	Management of the public lighting system
9	Support for Self-reliance Scheme
10	Shine Skills Centre

VALUE FOR MONEY AUDIT GUIDELINES

Value for money audit

Value for money audit is an examination into the economy, efficiency and effectiveness with which any bureau of the Government Secretariat, department, agency, other public body, public office, or audited organisation has discharged its functions. Value for money audit is carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and have been accepted by the Administration.

2. The guidelines are:

- firstly, 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 the guidelines, he will not comment on policy decisions of the Executive and Legislative Councils, save from the point of view of their effect on the public purse;
- secondly, 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;
- thirdly, the Director of Audit may also consider as to whether policy objectives have been determined, and policy decisions taken, with appropriate authority;

- fourthly, he may also consider whether there are satisfactory arrangements for considering alternative options in the implementation of policy, including the identification, selection and evaluation of such options;
- fifthly, he may also 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;
- sixthly, he may also consider as to whether there is conflict or potential conflict between different policy aims or objectives, or between the means chosen to implement them;
- seventhly, he may also 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
- finally, he may also be entitled to exercise the powers given to him under section 9 of the Audit Ordinance (Cap. 122).

3. The Director of Audit is not entitled to question the merits of the policy objectives of any bureau of the Government Secretariat, department, agency, other public body, public office, or audited organisation in respect of which an examination is being carried out or, subject to the 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.

4. Value for money audit is conducted in accordance with a programme of work which is determined annually by the Director of Audit. The procedure of the Public Accounts Committee provides that the Committee shall hold informal consultations with the Director of Audit from time to time, so that the Committee can suggest fruitful areas for value for money audit by the Director of Audit.

CHAPTER 1

Environment Bureau Environmental Protection Department

Government's efforts in managing municipal solid waste

**Audit Commission
Hong Kong
27 October 2015**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 65 of the Director of Audit contains 10 Chapters which are available on our website at <http://www.aud.gov.hk>

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GOVERNMENT'S EFFORTS IN MANAGING MUNICIPAL SOLID WASTE

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GOVERNMENT'S EFFORTS IN MANAGING MUNICIPAL SOLID WASTE

Executive Summary

1. In 2013, Hong Kong generated 5.49 million tonnes of municipal solid waste (MSW), of which 3.48 million tonnes (63%) were disposed of at landfills and the remaining 2.01 million tonnes (37%) were recovered for recycling. Compared to the published statistics five years ago, the MSW quantity disposed of at landfills had increased by 6.4% from 3.27 million tonnes in 2009 to 3.48 million tonnes in 2013, and MSW recovery rate had decreased from 49% in 2009 to 37% in 2013. In terms of weight, the quantity of the MSW disposed of at landfills every day in 2013 was equivalent to that of about 650 double-decker buses. However, the MSW-generation quantities and the MSW-recovery rates estimated by the Environmental Protection Department (EPD) had subsumed unknown quantities of import recyclables being processed for export (see paras. 3 and 8 below).

2. As the executive arm of the Environment Bureau (ENB), the EPD is responsible for implementing waste management policies and strategies. In December 2005, the EPD published the "Policy Framework for the Management of Municipal Solid Waste (2005-2014)" (2005 Policy Framework) which set out strategies, targets and action plans on avoidance and minimisation; reuse, recovery and recycling; and bulk reduction and disposal of MSW. In May 2013, the ENB published the "Hong Kong Blueprint for Sustainable Use of Resources (2013-2022)" (2013 Blueprint) which set out targets to reduce the per-capita-per-day MSW disposal rate. The Audit Commission (Audit) has recently conducted a review to examine the Government's efforts in managing MSW with a view to identifying areas for improvement.

Reduction in municipal solid waste

3. *MSW-generation quantities and MSW-recovery rates having incorrectly subsumed unknown quantities of import recyclables.* MSW-generation quantity and MSW-recovery rate are two key performance indicators on Government's actions in managing MSW. The former is the sum of the quantity of MSW disposed

Executive Summary

of at landfills and the quantity of locally-generated MSW recovered for recycling. The latter is a function of the quantity of MSW recovered and the quantity of MSW generated. The 2005 Policy Framework set a target to reduce the MSW-generation quantity by 1% per annum up to 2014, using 2003 as the base year. Accordingly, the MSW-generation quantities were expected to decrease by 5% from 5.77 million tonnes in 2005 to 5.48 million tonnes in 2010. However, due to the inclusion of unknown quantities of import recyclables in the estimation, these two indicators had been over-estimated by the EPD. Mainly due to increases in the quantities of import recyclables from 2005 to 2010, the over-estimation had become more apparent during the period where the former had increased by 15% from 6.01 million tonnes to 6.93 million tonnes, and the latter from 43% to 52%. These two indicators had dropped to 5.49 million tonnes and 37% respectively in 2013. In estimating the quantities of locally-generated recyclables recovered for export, the EPD had made use of statistics on domestic-export recyclables compiled by the Census and Statistics Department (C&SD) which were based on the information contained in trade declaration forms submitted by exporters to the Customs and Excise Department (C&ED). In this connection, import recyclables that had been processed in Hong Kong for export had been classified as “domestic exports” for trade declaration purposes. Therefore, the quantities of domestic-export recyclables comprised both locally-generated and import quantities. The over-estimation of the quantities of MSW recovered (and MSW generated) had distorted the effectiveness of the Government’s efforts to increase MSW recovery and recycling (see para. 8 below and paras. 2.2, 2.5 to 2.11 and 2.15).

4. Since April 2014, in order to facilitate the collection of reliable data on the quantities of locally-generated recyclables recovered for export, the C&SD and the C&ED have taken actions to collect additional information from exporters in order to differentiate between export recyclables that are generated locally and those imported from overseas (paras. 2.20 to 2.22).

5. *Time targets for implementing producer responsibility schemes (PR schemes) and MSW charging scheme not met.* The 2005 Policy Framework set time targets for implementing PR schemes on six products, namely plastic shopping bags (PSBs) in 2007, waste electrical and electronic equipment in 2007, vehicle tyres in 2007, glass beverage bottles in 2008, packaging materials in 2008 and rechargeable batteries in 2009, and for introducing an MSW charging bill to the Legislative Council (LegCo) in 2007. However, Audit noted that Phase 1 and Phase 2 of the PR scheme on PSBs were only implemented in July 2009 and April 2015 respectively, and up to August 2015, six to eight years later than the

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time targets, PR schemes on the other five products had not been implemented. Moreover, the MSW charging bill would only be submitted to LegCo in the 2016-17 legislative session, nine years later than the time target (paras. 2.23, 2.26, 2.31, 2.32, 2.40 and 2.43).

6. *Need to be more comprehensive in reporting the impact of the PR scheme on PSBs.* In 2007 and 2008, the EPD informed LegCo of the introduction of the PR scheme on PSBs, with the objective of inculcating behavioural changes to reduce the excessive use of PSBs. In July 2009, the EPD launched Phase 1 of the PR scheme on PSBs (PSB Phase 1) under which prescribed retailers (mainly supermarkets, convenience stores and personal-item stores) meeting specified requirements were required to charge customers not less than 50 cents for each PSB distributed. Audit noted that, based on the EPD's landfill-survey results, the number of PSBs bearing the features of supermarkets, convenience stores or personal-item stores (pertinent PSBs) being disposed of at landfills had decreased from 657 million weighing 13,493 tonnes in 2009 to 116 million (82% decrease) weighing 1,949 tonnes (86% decrease) in 2013. However, the number of other PSBs had increased from 4,021 million weighing 64,942 tonnes in 2009 to 4,506 million (12% increase) weighing 65,222 tonnes (0.4% increase) in 2013. Although the reduction of 11,544 tonnes (13,493 less 1,949 tonnes) of pertinent PSBs being disposed of at landfills from 2009 to 2013 was notable, its impact in reducing the total quantity of MSW being disposed of at landfills (3.48 million tonnes in 2013) was quite small. However, in informing LegCo that PSB Phase 1 had been implemented successfully, the EPD only informed LegCo of the reduction in the number of pertinent PSBs but not the reduction in their weight. The additional information would provide a more comprehensive account of the effects on landfills by the implementation of PSB Phase 1 (paras. 2.39 to 2.48).

7. Audit also noted that the number of pertinent PSBs (see para. 6) being disposed of at landfills based on the EPD's landfill-survey results was significantly greater than that of PSBs distributed by registered retailers at registered outlets based on their returns. For example, in 2012, landfill surveys found 156 million of pertinent PSBs whereas registered retailers reported that their registered outlets had only distributed 59.5 million of PSBs (para. 2.49).

Recovery of municipal solid waste

8. ***Over-estimation of MSW-recovery rates.*** Waste recovery comprises processes of waste recycling, composting and energy generation, aiming to extract the maximum benefits from products, postpone the consumption of virgin resources, and reduce the quantity of waste disposed of at landfills so as to minimise landfill use. MSW-recovery rate is a key performance indicator of Government's efforts made in MSW recovery. The 2005 Policy Framework set a target of achieving an MSW-recovery rate of 50% by 2014 and the 2013 Blueprint stated that 55% of MSW would be recycled by 2022. While the published MSW-recovery rates had increased from 43% in 2005 to 52% in 2010, the rate had dropped to 37% in 2013. As elaborated in paragraph 3, Audit found that the inclusion of import recyclables processed for export in the estimation of the MSW generation and recovery quantities had led to distortion of the MSW-recovery rates and thereby the MSW recycling performance in the past years (paras. 3.2, 3.4 and 3.6 to 3.13).

9. ***Need to take action to increase recovery of waste plastics.*** Audit noted that, in 2013, only 26% of waste plastics were recovered (which included unknown quantities of import recyclable plastics — see para. 3), comparing with 90% of waste metals and 61% of waste paper. According to the EPD, recovery of waste plastics produced a lower profit margin because of the high labour cost involved in sorting recyclable plastics and high transportation cost. Hence, the waste-plastics recovery rate was lower than those of the other recyclables (paras. 3.11 and 3.14 to 3.19).

10. ***Lack of statistics on collected recyclables being disposed of at landfills.*** In order to facilitate the collection of recyclables, the Government provided waste-separation bins at public places. The Food and Environmental Hygiene Department incurred about \$9,000 for engaging contractors to collect a tonne of recyclables from waste-separation bins for delivery to approved recyclers. Moreover, government contractors would separate recyclables collected from waste-separation bins into contaminated ones and non-contaminated ones. According to the EPD, for hygiene reasons, only non-contaminated recyclables can be recovered for recycling. Hence, the contaminated recyclables would be disposed of at landfills and the non-contaminated ones transported to approved recyclers.

Executive Summary

However, due to the lack of reporting requirements in the contracts for collecting recyclables, the Government did not have statistics on the quantities of recyclables collected from waste-separation bins which were disposed of at landfills due to contamination or other reasons (paras. 3.24 and 3.36 to 3.38).

Recycling of municipal solid waste

11. In order to support local recycling industries, the Government spent \$308 million to develop a 20-hectare EcoPark in Tuen Mun to provide long-term land at affordable cost for use by recyclers. EcoPark was developed under two phases, comprising six land lots under Phase 1 (Lots 1 to 6) which had been made available for leasing since December 2006, and ten lots under Phase 2 (Lots 7 to 16) which had been made available for leasing from October 2009 to July 2012 (paras. 4.2 to 4.4).

12. *Some tenancy requirements not being complied with.* Audit examination revealed that: (a) from 2011 to 2014, the reported recyclables throughput of the tenant of Lot 1 only attained 16% to 85% of throughput requirements stated in the tenancy agreement; (b) the tenant of Lot 3 only commenced recycling operation in May 2010, 24 months later than the time specified in the tenancy agreement. The operation was later suspended for 20 months from November 2011 to June 2013 and again for 8 months from January to September 2015; (c) up to August 2015, five years later than the operation-commencement time of August 2010 specified in the tenancy agreement, recycling operation at Lot 4 had not commenced; and (d) up to August 2015, 29 months later than the operation-commencement time of April 2013 specified in the tenancy agreements of Lots 9, 10 and 14, recycling operation at these three land lots had not commenced (paras. 4.6 to 4.21).

13. *Some tenants being permitted to use vacant land lots free of charge.* Audit examination revealed that, from July 2012 to August 2015, the EPD had permitted five EcoPark tenants (tenants of Lots 3, 8, 11, 13 and 14) to use certain areas in vacant Lots 15 and 16 for storage purposes free of charge for periods ranging from three to six months for each period of permission (para. 4.23).

Executive Summary

Treatment and disposal of municipal solid waste

14. ***Target for reducing MSW disposal at landfills not met.*** The 2005 Policy Framework set a target of reducing the percentage of MSW disposed of at landfills from 60% in 2004 to 25% in 2014, with the remaining 50% of MSW being recovered and 25% being treated by an integrated waste management facility. However, Audit noted that, in 2013, more than 63% of MSW were disposed of at landfills (paras. 5.2 and 5.12).

15. ***Rising MSW disposal at landfills in recent years.*** The 2013 Blueprint set a target of reducing the per-capita-per-day MSW disposal quantities from 1.27 kilogram (kg) in 2011 to 1 kg or less by 2017, and further to 0.8 kg or less by 2022. However, Audit noted that the per-capita-per-day MSW disposal quantities had increased from 1.27 kg in 2011 to 1.35 kg in 2014, representing a 6.3% increase (paras. 5.13, 5.14 and 6.3).

16. ***LegCo not provided with quantifiable information and assumptions relating to serviceable lives of landfills.*** Hong Kong has three landfills that occupy 271 (100 + 61 + 110) hectares of land and have an aggregate design capacity of 139 million cubic metres (m³). In March 2012, the EPD informed LegCo that, given that 79 million m³ of the total landfill capacity had been used up as of end 2011, the three landfills would reach their capacities commencing from 2014 to 2018. Based on the total quantity of waste disposed of at the three landfills from 1993 to 2011 and the landfill capacity being used up during the period, Audit estimated that the remaining serviceable lives of the three landfills could last for some years after 2018. According to the EPD, its estimated years of the remaining serviceable lives of the three landfills were based on the assumptions that some landfill capacities would be reserved for other uses and there would be growth in the quantities of MSW, construction waste and special waste being disposed of at landfills in the forthcoming years. However, the EPD had not provided LegCo with the related quantifiable information and the underlying assumptions (paras. 5.16 to 5.20).

Executive Summary

Way forward

17. Owing to the disposal of large quantities of MSW at landfills in the past years, Hong Kong's limited landfill space (after implementing extension works) will be progressively used up in the coming two decades. In December 2014, in applying for LegCo funding approval of \$9.6 billion for the extension works for two of the three landfills, the EPD estimated that their useful lives would extend to 2023 and 2028. The EPD also commissioned a detailed study with a view to extending the serviceable life of the remaining landfill to 2033-34. Subject to the FC funding approval for extension works of a landfill and after completing the approved and proposed extension works, the three landfills would occupy a total of 554 hectares of land, which is approximately the size of 550 standard football pitches. In view of the scarcity of land in Hong Kong, both the Government and the community need to make utmost efforts on minimising MSW disposal at landfills, which will help preserve the precious landfill space for use by this generation and future generations (paras. 1.7, 6.8 and 6.9).

Audit recommendations

18. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Government should:**

Reduction in municipal solid waste

- (a) **take measures to obtain accurate statistics on the quantities of locally-generated recyclables recovered for export for estimating the MSW-generation quantities and recovery rates (para. 2.34(a)(i));**
- (b) **expedite actions to implement the PR schemes and the MSW charging scheme (para. 2.34(c) and (d));**
- (c) **strengthen actions with a view to improving the accuracy of statistics collected for evaluating the effectiveness of PR schemes in future (para. 2.52(b));**

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Recovery of municipal solid waste

- (d) **vigilantly monitor significant fluctuations in the MSW-recovery rates and ascertain the causes as soon as possible in future (para. 3.20(a));**
- (e) **consider providing appropriate assistance through the Recycling Fund to promote the sustainable development of the waste-plastics recycling industry (para. 3.20(c));**

Recycling of municipal solid waste

- (f) **explore ways and means to effectively enforce tenants' compliance with requirements stated in EcoPark tenancies (para. 4.30(a));**
- (g) **charge reasonable rental for temporary use of vacant land lots by profit-making organisations (para. 4.30(d));**

Treatment and disposal of municipal solid waste

- (h) **strengthen efforts with a view to reducing MSW generation and increasing MSW recovery (para. 5.21(a));**
- (i) **in seeking funding approval for landfill extension works in future, provide LegCo with quantifiable information and the underlying assumptions in estimating the remaining serviceable lives of landfills (para. 5.21(b)); and**

Way forward

- (j) **strengthen efforts to clearly publicise the significant landfill problem (para. 6.15(a)).**

Response from the Government

19. The Government agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

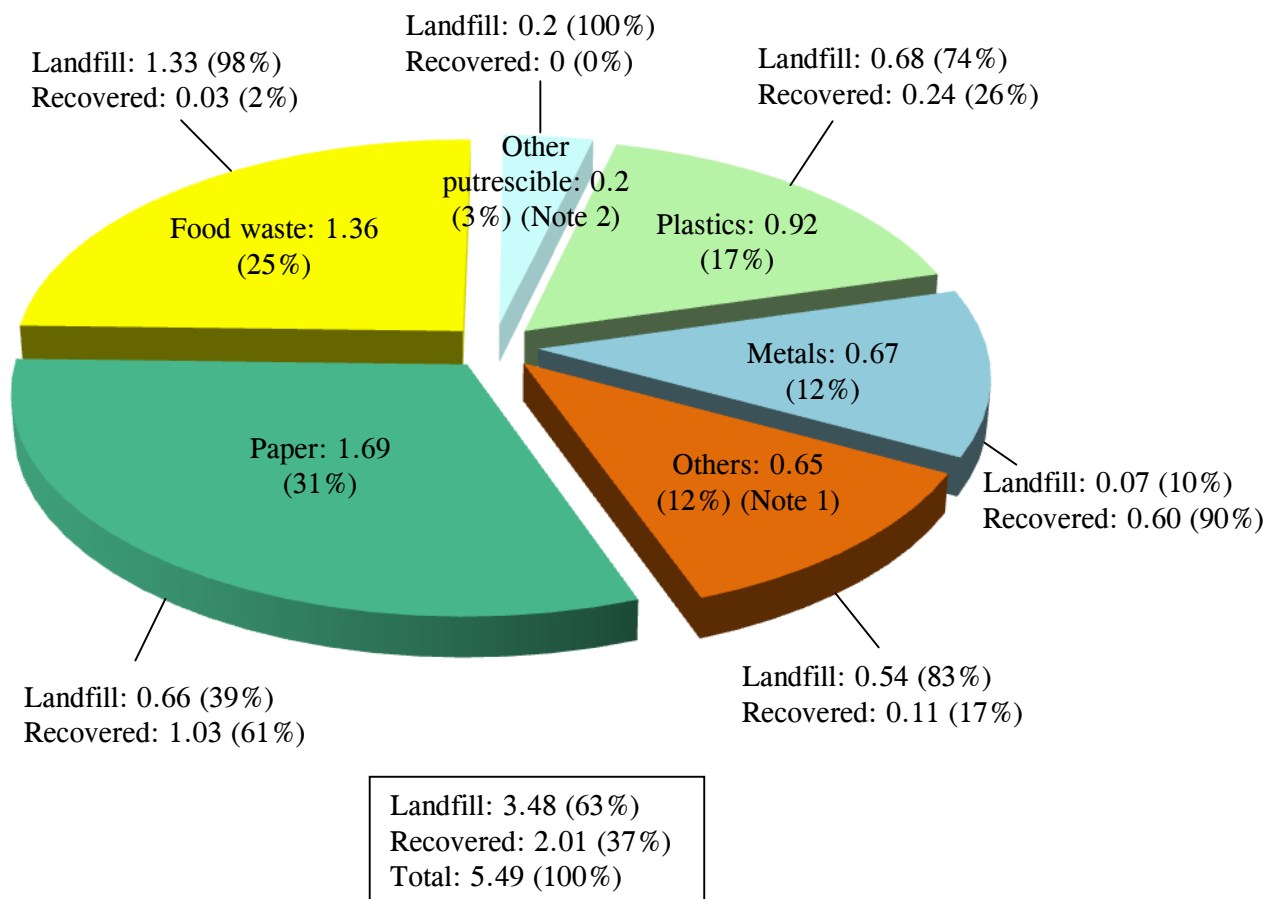
1.2 Municipal solid waste (MSW) is generated from homes, schools, public buildings and streets (known as domestic waste) and from shops, restaurants, offices, hotels, factories and other businesses (known as commercial and industrial (C&I) waste). In 2013, Hong Kong generated 5.49 million tonnes of MSW, of which 3.48 million tonnes (63%) (or 9,547 tonnes a day) were disposed of at landfills and the remaining 2.01 million tonnes (37%) (or 5,503 tonnes a day) were recovered for recycling (Note 1). In terms of weight, about 650 double-decker buses (Note 2) of MSW were disposed of at landfills every day. MSW mainly comprises food waste, waste plastics, metals, paper and other putrescible (see Figure 1).

Note 1: *The 5.49 million tonnes of MSW generated and 2.01 million tonnes of MSW recovered included unknown quantities of import recyclables processed for export (see paras. 2.5 to 2.22).*

Note 2: *According to the Environmental Protection Department (EPD), the weight of Hong Kong's daily food-waste disposal of 3,648 tonnes in 2013 is equivalent to that of 250 double-decker buses. Therefore, 9,547 tonnes of MSW disposed of at landfills a day is equivalent to the weight of about 650 double-decker buses $((9,547 \div 3,648 \text{ tonnes}) \times 250)$.*

Figure 1

**MSW generation
(in million tonnes)
(2013)**



Source: Audit analysis of EPD records

Note 1: Other MSW mainly included waste glass, textiles, wood, rattan and miscellaneous household waste.

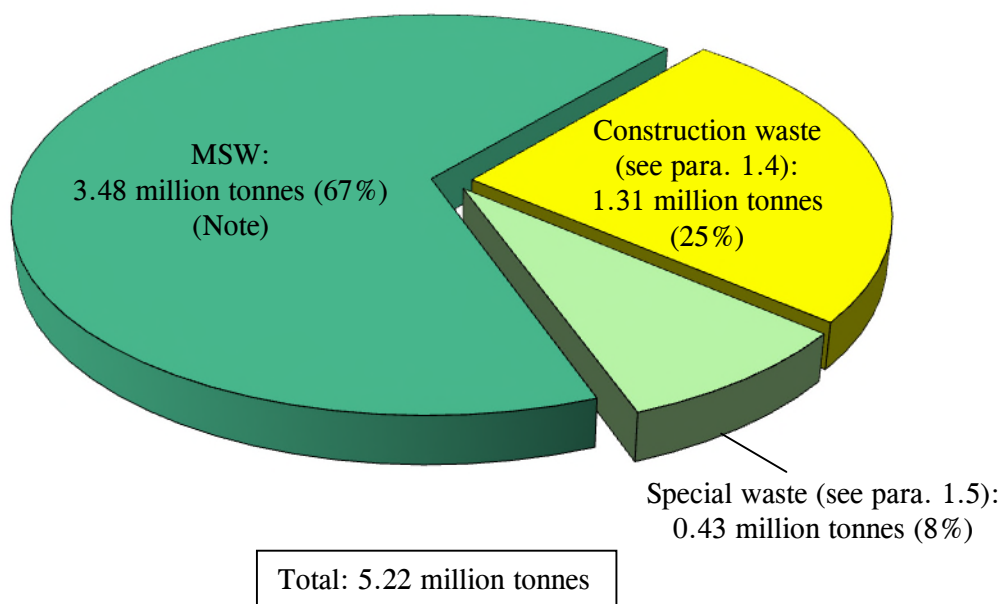
Note 2: Other putrescible mainly included yard waste and other organic waste.

Remarks: The MSW recovery quantities included unknown quantities of import recyclables processed for export (see paras. 2.5 to 2.22). As of September 2015, most of the related statistics for 2014 were not available.

1.3 In addition to MSW, landfills also accept construction waste and special waste for disposal. In 2013, a total of 5.22 million tonnes of waste were disposed of at landfills (see Figure 2).

Figure 2

Waste disposal at landfills
(2013)



Source: EPD records

Note: Of the 3.48 million tonnes of MSW disposed of at landfills, 2.32 million tonnes (67%) were from domestic sources and 1.16 million tonnes (33%) were from C&I sources.

1.4 At times, construction and demolition materials (including debris, rubble, earth and concrete) are abandoned from construction, renovation and demolition activities as well as land excavation and road works. Over 90% of construction waste is inert and known as public fill, which is suitable for land reclamation and site formation. In 2013, of the 23.9 million tonnes of abandoned construction and demolition materials, 12.9 million tonnes (54%) were public fill which were stockpiled for reuse, 9.7 million tonnes (41%) were exported to the Mainland for gainful use such as reclamation, and the remaining 1.3 million tonnes (5%) were disposed of at landfills.

Introduction

1.5 Special waste comprises dredged mud and excavated materials (which are not suitable for reuse as fill materials), dewatered sludge from sewage treatment plants, livestock waste, clinical waste and chemical waste. In 2013, Hong Kong generated 31 million tonnes of special waste, of which 29.8 million tonnes (96.1%) were disposed of by marine dumping, 0.77 million tonnes (2.5%) were recovered as useful materials or treated for other uses, and 0.43 million tonnes (1.4%) were disposed of at landfills. Since April 2015, dewatered sludge from sewage treatment plants has been disposed of by incineration at a newly commissioned sludge treatment facility in Tuen Mun. The residue of incineration is disposed of at landfills.

Three landfills

1.6 There are three landfills in Hong Kong for the disposal of MSW, construction waste and special waste, namely Southeast New Territories (SENT) Landfill occupying an area of 100 hectares (ha — Note 3) in Tseung Kwan O, Northeast New Territories (NENT) Landfill occupying an area of 61 ha in Ta Kwu Ling and West New Territories (WENT) Landfill occupying an area of 110 ha in Nim Wan (Note 4). In 2013, 0.72 million tonnes (21%), 0.78 million tonnes (22%) and 1.98 million tonnes (57%) of MSW were respectively disposed of at SENT, NENT and WENT Landfills (totalled 3.48 million tonnes). From January 2016, SENT Landfill will cease receiving MSW and will only receive construction waste. About 65% of the MSW was delivered to the three landfills through a network of refuse-transfer stations (Note 5), with the remaining 35% being directly transported to the landfills. Waste delivered to refuse transfer stations is compacted into purpose-built containers for transportation to landfills, which help reduce the transportation cost and minimise environmental nuisance during transportation. Figure 3 shows the locations of the landfills and the refuse-transfer-station network.

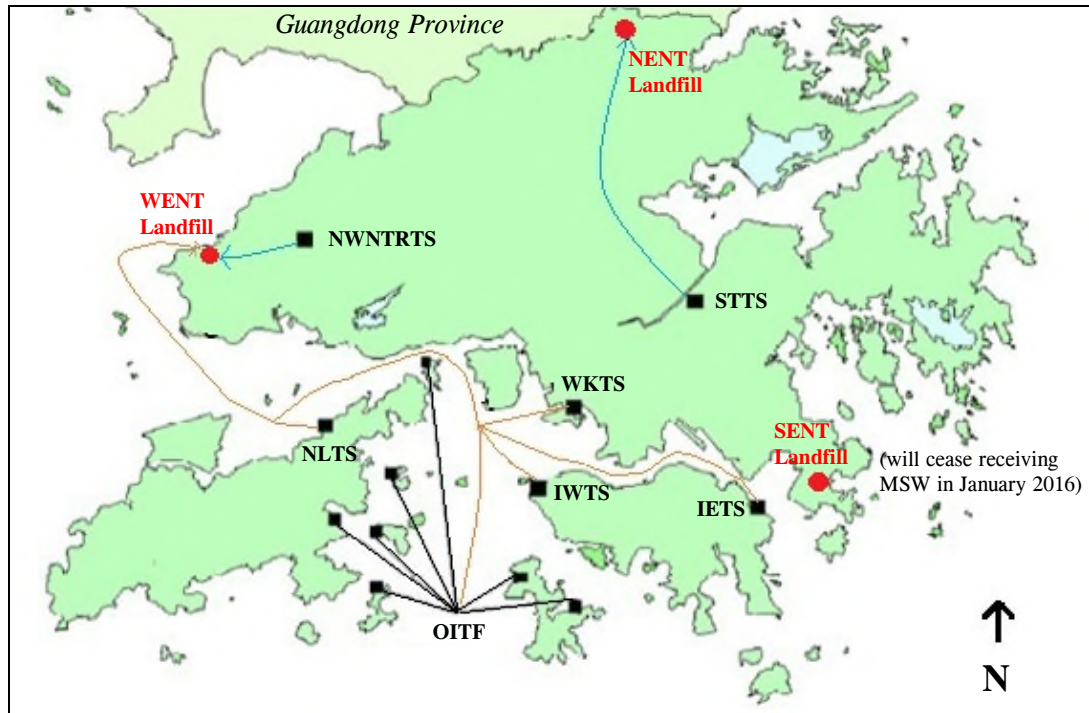
Note 3: *A hectare (or 10,000 square metres (m²)) of land is approximately the size of a standard football pitch. Of the 100 ha of land of SENT Landfill, 50 ha is reclaimed land.*

Note 4: *Of the 110 ha of land of WENT Landfill, 43 ha is reclaimed land.*

Note 5: *As of August 2015, there were six refuse-transfer stations serving the urban areas and new towns, namely Island East Transfer Station, Island West Transfer Station, West Kowloon Transfer Station, Sha Tin Transfer Station, North Lantau Transfer Station, North West New Territories Refuse Transfer Station and seven smaller facilities serving the outlying islands (collectively referred to as Outlying Islands Transfer Facilities).*

Figure 3

**Landfills and refuse-transfer-station network
(August 2015)**



- Legend:
- IETS — Island East Transfer Station
 - IWTS — Island West Transfer Station
 - NLTS — North Lantau Transfer Station
 - NWNTRTS — North West New Territories Refuse Transfer Station
 - OITF — Outlying Islands Transfer Facilities
 - STTS — Sha Tin Transfer Station
 - WKTS — West Kowloon Transfer Station

Source: EPD records

Introduction

1.7 In December 2014, the EPD estimated that SENT, NENT and WENT Landfills would reach their original design capacities by 2015, 2016-17 and 2018-19 respectively. In the same month, the Finance Committee (FC) of the Legislative Council (LegCo) approved funding of \$2,101.6 million and \$7,510 million (totalling \$9,611.6 million or \$9.6 billion) for extension works for SENT and NENT Landfills respectively, which would extend the serviceable lives of the two landfills to 2023 and 2028 respectively. Upon completion of extension works, the areas of SENT Landfill will increase from 100 ha to 113 ha (Note 6) and NENT Landfill from 61 ha to 131 ha. Furthermore, the FC also approved in December 2014 funding of \$38 million for carrying out the detailed study, site investigation and tender preparation work for WENT Landfill extension works. Subject to FC funding approval, the proposed works would extend WENT Landfill area from 110 ha to 310 ha.

Government strategies and action plans

1.8 As the executive arm of the Environment Bureau (ENB), the EPD is responsible for, inter alia, implementing waste management policies and strategies. The EPD is headed by the Permanent Secretary for the Environment who also assumes the office of the Director of Environmental Protection. Appendix A shows an extract of the organisation chart of the EPD.

1.9 In December 2005, the EPD published the “Policy Framework for the Management of Municipal Solid Waste (2005-2014)” (hereinafter referred to as the 2005 Policy Framework), which set out strategies, targets and action plans on avoidance and minimisation; reuse, recovery and recycling; and bulk reduction and disposal of MSW. The waste reduction and recycling targets and related action plans were updated in January 2011. In May 2013, the ENB published the “Hong Kong Blueprint for Sustainable Use of Resources (2013-2022)” (hereinafter referred to as the 2013 Blueprint), which set out targets to reduce the per-capita-per-day MSW disposal rate from 1.27 kilogram (kg) in 2011 to 1 kg or less by 2017, and further to 0.8 kg or less by 2022.

Note 6: *According to the EPD, the landfill extension would occupy 13 ha of additional land in Tseung Kwan O Area 137.*

1.10 As of March 2014, the capital costs of providing the three landfills and the refuse-transfer-station network were \$4,129 million and \$2,724 million respectively. In 2014-15, the estimated recurrent expenditure of the EPD's waste management programme was \$2,049 million, of which \$705 million (34%) and \$419 million (20%) were for meeting the operation costs of the three landfills and the refuse-transfer-station network respectively. The estimated operation cost (including collection and transfer cost) of disposing of a tonne of MSW was \$520.

Audit review

1.11 From 2001 to 2010, the Audit Commission (Audit) completed four reviews to examine Government actions on management of MSW. The review results were included in the following reports:

- (a) Chapter 8 of the Director of Audit's Report No. 36 of March 2001 entitled Provision of refuse transfer stations;
- (b) Chapter 7 of the Director of Audit's Report No. 39 of October 2002 entitled Management of municipal solid waste;
- (c) Chapter 11 of the Director of Audit's Report No. 51 of October 2008 entitled Reduction and recovery of municipal solid waste; and
- (d) Chapter 5 of the Director of Audit's Report No. 54 of March 2010 entitled Development of EcoPark.

1.12 The reviews found areas for improvement in the implementation of various strategies and action plans on reduction, recycling and disposal of MSW. The Public Accounts Committee (PAC) of LegCo conducted public hearings in 2008 and 2010 to examine the findings included in two audit reports (see para. 1.11(c) and (d)).

Introduction

1.13 In January 2015, Audit commenced a review to examine the Government's efforts in managing MSW (the subject matter of this review). In May 2015, Audit commenced a review of the reduction and recycling of food waste by the Government (see Chapter 2 of the Director of Audit's Report No. 65). This review examines the overall recovery of MSW and reduction of MSW disposal at landfills, and ENB/EPD efforts to reduce and recycle MSW.

1.14 This review focuses on the following areas:

- (a) reduction in municipal solid waste (PART 2);
- (b) recovery of municipal solid waste (PART 3);
- (c) recycling of municipal solid waste (PART 4);
- (d) treatment and disposal of municipal solid waste (PART 5); and
- (e) way forward (PART 6).

Audit has identified areas where improvement can be made by the Government in the above areas and has made recommendations to address the issues.

Acknowledgement

1.15 Audit would like to acknowledge with gratitude the full cooperation of the staff of the ENB, the EPD and the Food and Environmental Hygiene Department (FEHD) during the course of the audit review.

PART 2: REDUCTION IN MUNICIPAL SOLID WASTE

2.1 This PART examines actions taken by the ENB and the EPD in reducing MSW, focusing on:

- (a) achievement of MSW-reduction targets (see paras. 2.2 to 2.37); and
- (b) implementation of producer responsibility scheme (PR scheme — Note 7) on plastic shopping bags (PSBs) (see paras. 2.38 to 2.53).

Achievement of MSW-reduction targets

2.2 In relation to avoidance and minimisation of MSW, the 2005 Policy Framework set the following target:

Reducing the quantity of MSW generation by 1% per annum up to 2014, using 2003 as the base year.

2.3 Furthermore, the 2011 Action Plan laid down the following action plans:

- (a) expediting legislative proposals to introduce PR schemes; and
- (b) engaging the public in continued discussions on possible options to introduce MSW charging as a direct economic measure to reduce waste at source.

Note 7: *A PR scheme enshrines the polluter-pays principle under which manufacturers, importers, wholesalers, retailers and consumers are required to share the cost of collection, recycling, treatment and disposal of end-of-life products. For example, under the first phase of the PR scheme on PSBs, prescribed retailers are required to charge customers not less than 50 cents for each PSB distributed (see para. 2.41(a)).*

Reduction in municipal solid waste

2.4 Moreover, with a view to reducing the per-capita-per-day MSW disposal from 1.27 kg (using 2011 as the base year) to 1 kg or less by 2017, and to 0.8 kg or less by 2022, the 2013 Blueprint laid down the following action plans:

Between 2013 and 2015

- (a) stakeholder engagement and law drafting for MSW charging;
- (b) finalising a bill on extension of the PR scheme on PSBs;
- (c) finalising a bill on the PR scheme on waste electrical and electronic equipment (WEEE);
- (d) conducting public consultation and law drafting for the PR scheme on glass beverage bottles; and

Between 2016 and 2018

- (e) studying PR schemes on other waste types (e.g. rubber tyres, wood, packaging materials and rechargeable batteries).

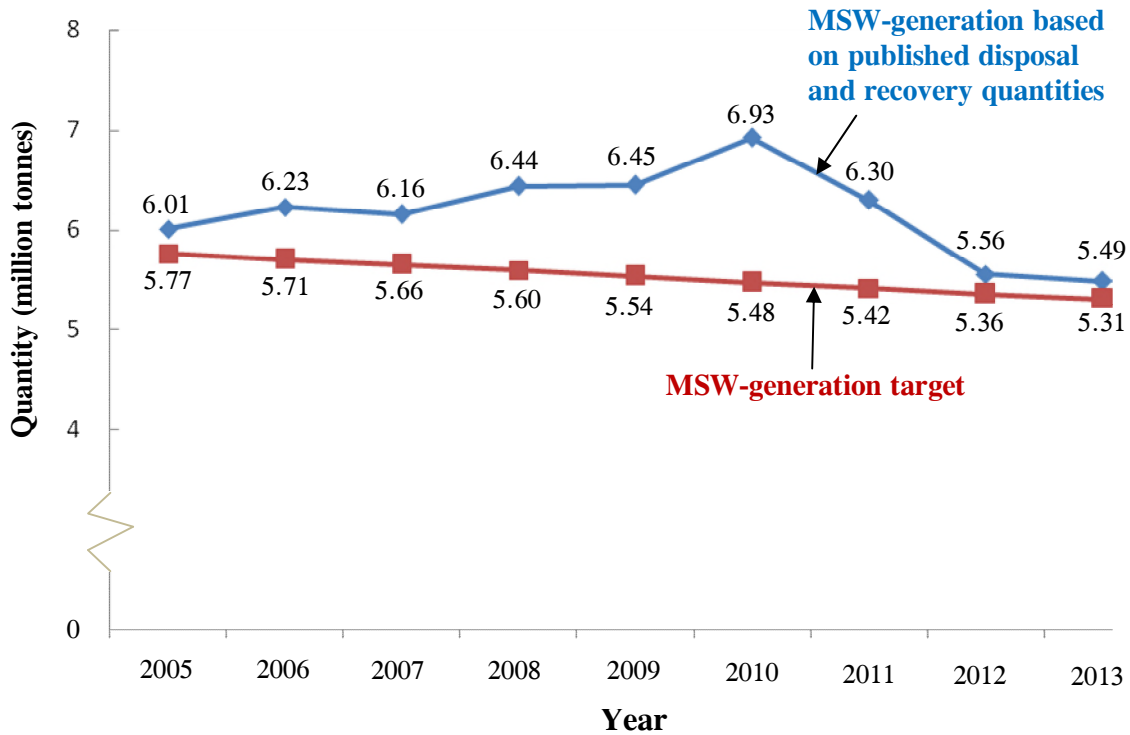
Areas for improvement

MSW-generation quantities having incorrectly subsumed unknown quantities of import recyclables

2.5 The 2005 Policy Framework set a target of reducing the MSW-generation quantity by 1% per annum up to the year 2014, using 2003 as the base year. Figure 4 shows the MSW-generation quantities (according to published disposal and recovery quantities) and the targets for 2005 to 2013.

Figure 4

Targets and MSW-generation quantities
(2005 to 2013)



Source: Audit analysis of EPD records

2.6 As shown in Figure 4, according to government targets, the MSW-generation quantities were expected to decrease from 5.77 million tonnes in 2005 to 5.48 million tonnes in 2010 (a 5% decrease). However, the MSW-generation quantities during the period had increased from 6.01 million tonnes to 6.93 million tonnes (a 15% increase). Thereafter, the MSW-generation quantities had significantly decreased from 6.93 million tonnes in 2010 to 5.49 million tonnes in 2013 (a 21% decrease), which still slightly exceeded the target of 5.31 million tonnes by 3%.

Reduction in municipal solid waste

2.7 The EPD estimated the quantity of locally-generated MSW (mainly waste plastics, metals and paper) by aggregating the quantities of the following:

- (a) MSW disposed of at landfills;
- (b) recyclables recovered and processed for local use (hereinafter referred to as locally-generated recyclables recovered for local use); and
- (c) recyclables recovered for export outside Hong Kong (hereinafter referred to as locally-generated recyclables recovered for export).

2.8 The following methods were used by the EPD to measure and estimate the quantities of MSW disposed of at landfills and recovered:

- (a) for MSW disposed of at landfills, EPD landfill contractors conducted weighing of each truckload of MSW before its disposal at landfills for compiling the total quantity of MSW disposed of there;
- (b) for locally-generated recyclables recovered for local use, the EPD conducted annual waste-recovery surveys to obtain the related statistics. The EPD maintained a directory of major recyclers, and requested the relevant recyclers to complete and return questionnaires on the quantities of recyclables recovered for local use and for export outside Hong Kong periodically; and
- (c) for locally-generated recyclables recovered for export, the EPD periodically made estimates of the quantities with reference to the “domestic export” statistics compiled by the Census and Statistics Department (C&SD), which were based on information contained in trade declarations submitted by exporters to the Customs and Excise Department (C&ED — see paras. 2.11 to 2.15). Although the survey mentioned in (b) above also provided statistics on the quantities of locally-generated recyclables recovered for export, the EPD relied on the trade-declaration information for the purpose because it was a statutory requirement for exporters to make export declarations, whereas waste-recovery surveys could not cover all recyclers in the trade and could only gather information provided voluntarily by recyclers through completing and returning questionnaires in EPD surveys.

Reduction in municipal solid waste

2.9 Table 1 shows the components of the MSW-generation quantities from 2009 to 2013 based on EPD published statistics.

Table 1
Components of MSW-generation quantities
(2009 to 2013)

Year	Quantity of MSW							
	Disposal at landfills		Recovered for local use		Recovered for export		Total	
	Million tonnes	%	Million tonnes	%	Million tonnes	%	Million tonnes	%
2009	3.27	50.7	0.03	0.5	3.15	48.8	6.45	100
2010	3.33	48.1	0.03	0.4	3.57	51.5	6.93	100
2011	3.28	52.1	0.04	0.6	2.98	47.3	6.30	100
2012	3.40	61.1	0.06	1.1	2.10	37.8	5.56	100
2013	3.48	63.4	0.14	2.5	1.87	34.1	5.49	100

Source: EPD records

2.10 According to the EPD, traders may import recyclables (mainly waste plastics) from overseas and may either:

- (a) put the import recyclables through recycling processes in Hong Kong, such as changing the shape of recyclables (e.g. shredding plastic bottles), and then export them outside Hong Kong for gainful use (hereinafter referred to as import recyclables processed for export); or
- (b) re-export the recyclables outside Hong Kong without going through recycling processes (hereinafter referred to as import recyclables for re-export).

Reduction in municipal solid waste

2.11 Under the existing trade declaration system administered by the C&ED, import recyclables having been processed locally and thereafter exported could be reported in the trade declaration form (Note 8) as “domestic exports”. The C&ED trade declaration form did not require exporters to differentiate between export recyclables that were generated locally and those imported from overseas. Consequently, the EPD was not able to differentiate between these two types of recyclables. An unknown quantity of import recyclables having been processed locally and exported was counted by the EPD as locally-generated recyclables. As a result, the locally-generated MSW quantities had been over-estimated in the past years.

2.12 In March 2014, the EPD informed the LegCo Panel on Environmental Affairs (EA Panel) of the quantities of import and export recyclables from 2009 to 2013. Given that Hong Kong does not have factories carrying out large-scale recycling processes to transform recyclables into consumer products, most of the import recyclables will be exported. Therefore, the total quantities of import recyclables plus locally-generated recyclables should be roughly equal to those of export recyclables. Accordingly, based on the data provided to the EA Panel in March 2014, Audit made a comparison of the related data. Details are shown in Table 2.

Note 8: *Under the trade declaration system, exporters were required to state in the form the origin country/territory of each type of export, and for goods subjected to a manufacturing process in Hong Kong which had changed permanently the shape, form and utility of the basic materials of the goods, they were Hong Kong origin for trade declaration purposes.*

Table 2

**Import and export recyclables
(2009 to 2013)**

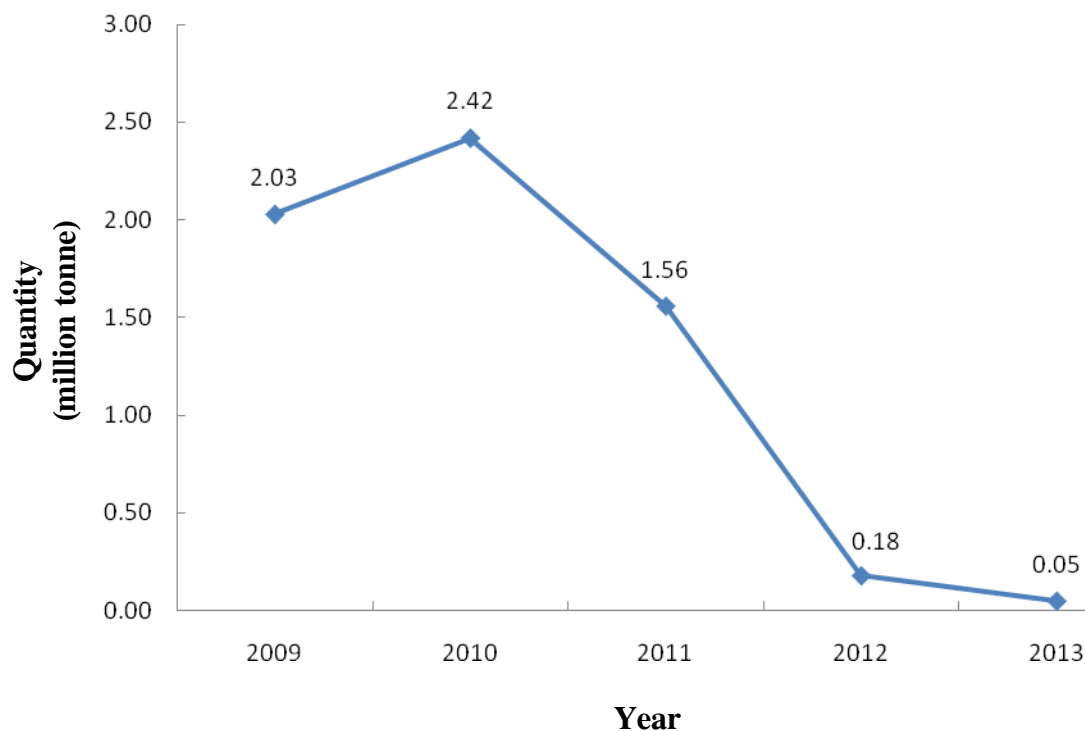
Year	Import recyclables (a) (million tonnes)	Locally-generated recyclables recovered for export (b) (million tonnes)	Import plus local recyclables (c) = (a) + (b) (million tonnes)	Export recyclables (d) (million tonnes)	Import plus local less export recyclables (e) = (c) – (d) (million tonnes)
2009	5.60	3.15	8.75	6.72	2.03
2010	5.72	3.57	9.29	6.87	2.42
2011	4.83	2.98	7.81	6.25	1.56
2012	3.93	2.10	6.03	5.85	0.18
2013	3.13	1.87	5.00	4.95	0.05
Total	23.21	13.67	36.88	30.64	6.24

Source: Audit analysis of C&ED and EPD records

2.13 As shown in Table 2, in 2009, 2010 and 2011, the aggregates of the quantities of import recyclables and those of locally-generated recyclables having been recovered for export exceeded the quantities of export recyclables by 2.03 million tonnes, 2.42 million tonnes and 1.56 million tonnes respectively. The excesses decreased to 0.18 million tonnes in 2012 and 0.05 million tonnes in 2013 (see Figure 5).

Figure 5

**Excess quantities of import plus locally-generated recyclables
over export recyclables
(2009-2013)**



Source: Audit analysis of EPD records

2.14 The excess quantities of recyclables shown in Figure 5 give rise to concerns that some import recyclables might have been disposed of at local landfills. According to the EPD: (a) it is unlikely that the import recyclables had been disposed of at local landfills because, under the Waste Disposal Ordinance (Cap. 354), disposal of import recyclables at local landfills and refuse-transfer stations requires the EPD's approval, and the EPD had not granted such approval in the past years; and (b) a reason for the excesses was that some import recyclables had been processed into products and exported outside Hong Kong under product categories other than the recyclable categories.

2.15 The significant quantities of 2.03, 2.42 and 1.56 million tonnes of import and locally-generated recyclables recovered for export in excess of those of export recyclables in 2009, 2010 and 2011 respectively might be attributed to some quantities of import recyclables processed for export having been incorrectly subsumed into the quantities of locally-generated recyclables recovered for export, resulting in over-estimating the quantities of the latter (see para. 2.11). In Audit's view, the EPD, in collaboration with the C&ED and C&SD, needs to strengthen actions with a view to enhancing the accuracy of the import and export recyclable statistics and take remedial actions where warranted.

2.16 In view of the significant fluctuations in the MSW-recovery rates (see PART 3 for details), in 2012, the EPD commissioned a consultant (Consultant A) at a cost of \$1.5 million to review the abnormal fluctuations of MSW-recovery rates (see Figure 8 in para. 3.8) and the methodologies for compiling the related statistics. In his report of February 2014, Consultant A found that:

- (a) there were anomalies in the fluctuations in the quantities of recyclable plastics in the past years whereas those of waste paper and waste metals had remained relatively stable;
- (b) the likely inclusion of import recyclable plastics processed for export in the estimation of the quantity of locally-generated waste plastics recovered for export would result in an over-estimation of the overall MSW-recovery rate;
- (c) in trade declarations, traders could not clearly differentiate between locally-generated recyclables recovered for export and import recyclables processed for export. Owing to the nature of the import and export declaration system, which was not designed for estimating MSW-recovery quantities, it was practically not possible to determine the quantities of non-locally generated waste plastics from the statistics of "domestic exports". In the circumstances, it was not possible to adjust the quantities of locally-generated waste plastics recovered for export to exclude non-locally generated ones; and
- (d) the current methodology used for estimating MSW-recovery rates was the most appropriate approach, subject to a number of improvement measures (see para. 2.20).

Reduction in municipal solid waste

2.17 In October 2015, the EPD informed Audit that:

- (a) under the trade declaration system of Hong Kong, import recyclable plastics for export which had not undergone any processing in Hong Kong should be declared as re-exports. However, some traders and exporters might have erroneously declared such recyclable plastics as domestic exports in the past;
- (b) traders and exporters had no problem in correctly declaring import waste metals and paper as either re-exports or domestic exports; and
- (c) it had put in place stringent control at landfills to prevent illegal disposal of import waste, and it had not found loads of import recyclable plastics being disposed of at landfills.

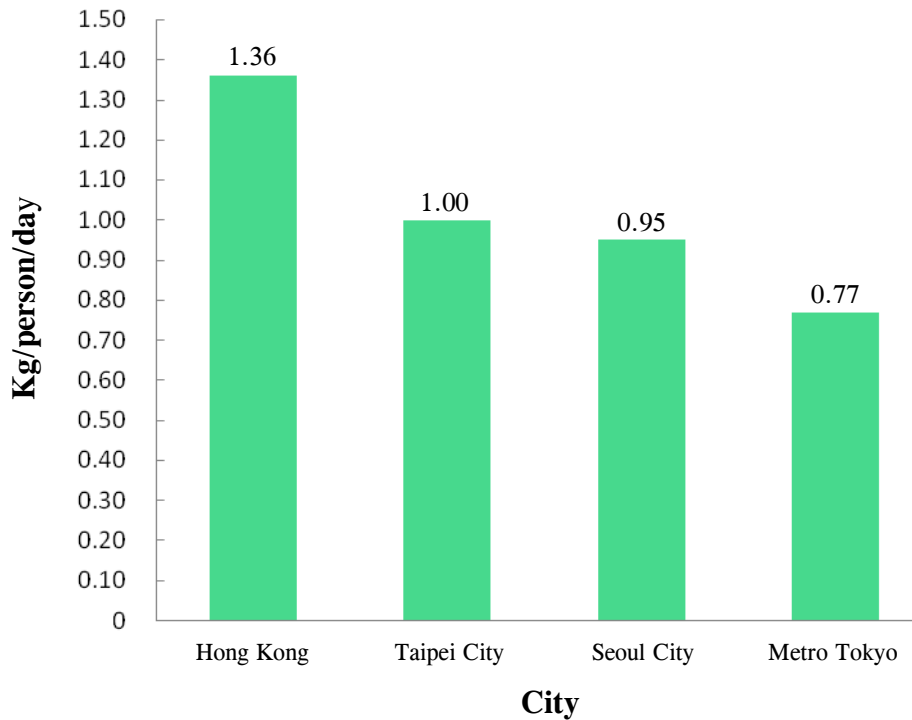
In order to remove the distortion in compiling the MSW-recovery rates and better evaluate the effectiveness of government actions to reduce local MSW generation, the EPD needs to explore ways and means to obtain accurate statistics on the quantities of locally-generated recyclables recovered for export as far as practicable.

High domestic per-capita MSW generation

2.18 The domestic per-capita-per-day MSW generation is high in comparison with other similar Asian cities in terms of economic development (see Figure 6).

Figure 6

**Per-capita-per-day domestic MSW generation
(2011)**



Source: EPD records

2.19 As elaborated in paragraphs 2.5 to 2.17, similar to the MSW-generation quantities, the domestic per-capita-per-day MSW-generation quantity had also been over-estimated. According to the EPD, Hong Kong population produced and disposed of more MSW than other Asian cities in 2013. Details are as follows:

City	Hong Kong	Metro Tokyo	Seoul City	Taipei City
Kg/person/day	0.88	0.56	0.30	0.27

Audit considers it unsatisfactory that the over-estimated per-capita MSW-generation quantity had been used to compare with those of some Asian cities.

Reduction in municipal solid waste

Recent developments

2.20 In March 2014, given that some traders might have incorrectly treated direct re-export recyclables as import recyclables processed for export in trade declarations, the EPD informed the EA Panel that it would, in collaboration with the C&ED and the C&SD, adopt appropriate measures in the collection of data so as to ensure that the data could better reflect the quantities of locally-generated recyclables. Such measures included:

- (a) the C&ED would issue additional guidelines on trade declarations in April 2014, and would work together with the EPD and the C&SD to organise regular thematic workshops for recyclable-plastics recyclers and exporters to keep them well informed of the requirements and relevant definitions in lodging accurate and complete trade declarations. The C&SD would strengthen the checking of export declarations on recyclable plastics; and
- (b) the C&SD would collect additional data (by making telephone calls to related exporters on a sample basis) on the sources (recovered locally or import recyclables) of recyclable plastics which have been declared as domestic exports and the recycling processes, if any, carried out in Hong Kong.

2.21 In September and October 2015, the EPD, the C&SD and the C&ED informed Audit that:

EPD

- (a) the compilation of the MSW-recovery rate for 2014 would adopt the enhanced measures mentioned in paragraph 2.20(b);
- (b) despite the fluctuations in MSW recovery quantities and recovery rates in the past years, the MSW-disposal quantities at landfills had remained stable, reflecting that the effectiveness of the EPD's various waste reduction and recovery measures had not been compromised, and that the import recyclables processed locally had largely been exported outside Hong Kong;

C&SD

- (c) the enhanced quality check procedures (see para. 2.20(b)) had been implemented for recyclable plastics since April 2014. The C&SD would strengthen checking to detect traders' incorrect reporting of re-export recyclable plastics as domestic-export ones. The information obtained from the additional quality check had also been used to compile additional data on the sources of domestic-export recyclable plastics (either recovered locally or imported from overseas) for the EPD's reference when compiling MSW-recovery rates;

C&ED

- (d) the C&ED would clarify with the declarants if they had doubts on the information stated in the declaration form. The C&ED would collect additional information from traders in order to differentiate between export recyclables which had been generated locally and those imported from overseas; and
- (e) in order to enhance the accuracy of the import and export recyclable statistics, from 2014 to April 2015, the EPD, the C&ED and the C&SD jointly conducted four thematic workshops for waste-plastic recyclers and exporters. A total of 52 representatives from 41 companies attended the workshops.

2.22 In Audit's view, the EPD, in collaboration with the C&SD and the C&ED, needs to strengthen efforts to implement the proposed new measures in paragraph 2.20 with a view to obtaining accurate statistics on the quantities of locally-generated recyclables recovered for export. These statistics would help improve the accuracy of the quantity of locally-generated MSW and MSW-recovery rates.

Time targets for implementing PR schemes on six products not met

2.23 According to the 2005 Policy Framework, the Government proposed to establish a framework for introducing PR schemes on specific products, with priority given to those that had significant impacts on waste disposal. Table 3 shows the time targets set for implementing PR schemes on six products.

Table 3

Time targets for implementing PR schemes on six products promulgated in 2005 Policy Framework

Product	Time target
PSBs	2007
WEEE	2007
Vehicle tyres	2007
Glass beverage bottles	2008
Packaging materials	2008
Rechargeable batteries	2009

Source: EPD records

2.24 As stated in the 2013 Blueprint:

- (a) the bill for Phase 2 of the PR scheme on PSBs would be finalised between 2013 and 2015;
- (b) the bill for the PR scheme on WEEE would be finalised between 2013 and 2015;
- (c) public consultation and law drafting for the PR scheme on glass beverage bottles would be carried out between 2013 and 2015; and
- (d) for other products (i.e. vehicle tyres, packaging materials and rechargeable batteries), studies would be launched between 2016 and 2018 to assess the need and consider whether they could be part of PR schemes.

2.25 According to the EPD, the PR schemes aimed to:

- (a) minimise the environmental impact of various types of products; and

- (b) based on the “polluter pays” principle, require manufacturers, importers, wholesalers, retailers, consumers and relevant stakeholders to share the responsibility for the reduction in the use, recovery, recycling or proper disposal of related products.

2.26 Audit examination revealed that, with the exception of the PR scheme on PSBs (Phase 2 of which was implemented on 1 April 2015 — see para. 2.43), notwithstanding that time targets of 2007 to 2009 had been set in the 2005 Policy Framework for implementing the PR schemes on WEEE, glass beverage bottles, vehicle tyres, packaging materials and rechargeable batteries, up to August 2015 (six to eight years later than the time targets), the related PR schemes had not been implemented.

2.27 In September and October 2015, the EPD informed Audit that the original time targets of implementing the PR schemes promulgated under the 2005 Policy Framework were based on the following considerations:

- (a) the originally intended legislative approach was that the Product Eco-responsibility Ordinance (Cap. 603) would provide the framework for PR schemes whereas product-specific measures would be subsequently introduced through subsidiary legislation. In the event, LegCo did not support this approach and required that each PR scheme must be implemented through legislative amendment to the Ordinance and subject to the three-reading scrutiny of LegCo; and
- (b) overseas experience suggested that the original intended legislation approach would prompt the relevant trade to introduce voluntary waste-reduction-and-recycling programmes which, if implemented successfully, might obviate the need (or at least relieve the immediate pressure) for implementing mandatory PR schemes. In practice, the trade had implemented voluntary PR schemes to promote recycling of computer and electronic equipment, fluorescent lamps, rechargeable batteries and glass beverage bottles.

2.28 Audit noted that, other than the PR schemes on PSBs, WEEE and glass beverage bottles, the EPD had not set revised time targets for implementing PR schemes on vehicle tyres, packaging materials and rechargeable batteries.

Reduction in municipal solid waste

In Audit's view, the EPD needs to set revised time targets for implementing PR schemes on the three types of product and expedite actions to implement the PR schemes on WEEE and glass beverage bottles, taking into consideration the experience gained.

Time target for implementing MSW charging scheme not met

2.29 According to the EPD, MSW charging provides an effective incentive that changes behaviour and leads people to cut down on waste generation. Overseas experience shows that MSW charging could contribute to significant reductions in waste generation (Note 9).

2.30 In December 2005, the EPD informed the Advisory Council on the Environment (Note 10) that the main objectives of MSW charging were to:

- (a) create an economic incentive for waste producers to avoid and reduce, or to recover and recycle waste; and
- (b) prevent indiscriminate use of landfills and other waste treatment facilities.

2.31 According to the 2005 Policy Framework, the Government envisaged that the MSW charging bill could be introduced by 2007. In the 2013 Blueprint, the EPD stated that it would engage stakeholders for law drafting relating to MSW charging from 2013 to 2015. Table 4 shows the chronology of key events relating to implementation of MSW charging.

Note 9: *According to the EPD, since implementing the MSW charging scheme, South Korea's per-capita disposal rate had dropped by 40% in a few years' time while Taipei City's per-capita disposal rate of household garbage had dropped by 65% in about 11 years.*

Note 10: *The Advisory Council on the Environment is the Government's principal advisory body on matters relating to pollution control, environmental protection and nature conservation. It is chaired by an academic with members comprising academics, businessmen, professionals and representatives from major environmental groups, and trade and industrial associations.*

Table 4

**Chronology of key events of implementing MSW charging scheme
(2006 to 2015)**

Month	Event
November 2006 to February 2007	Trial runs carried out in 20 housing estates (involving private and public housing estates and government quarters) to test the logistical arrangement on the use of designated garbage bags.
August 2007 to July 2008	The EPD engaged a consultant to review overseas experience on MSW charging and conduct surveys on local waste management practices.
November 2008 to March 2010	The EPD engaged another consultant to collect key information on waste generation and management practices of different C&I establishments.
January 2012 to April 2012	The EPD carried out public consultation to collect public views on the different MSW charging approaches.
December 2012	The EPD affirmed the direction of introducing quantity-based MSW charging in Hong Kong and invited the Council for Sustainable Development (Note) to conduct public engagement on the implementation framework.
September 2013 to January 2014	The Council for Sustainable Development carried out public engagement on the implementation framework of the MSW charging.
April 2014 to February 2015	The EPD carried out trial schemes in seven private housing estates and two rural villages.
December 2014	<p>The Council for Sustainable Development published the public engagement results, and recommended that:</p> <ul style="list-style-type: none"> (a) MSW charging should be implemented across the board for all sectors in one go; (b) MSW charging should be built upon the existing MSW collection and disposal system so as to minimise adverse impacts on environmental hygiene; and (c) the level of MSW charges should be directly related to the quantity of waste disposed of by MSW producers.

Reduction in municipal solid waste

Table 4 (Cont'd)

Month	Event
February 2015	The EPD confirmed at an EA Panel meeting that the Council of Sustainable Development's recommendations had been accepted by the Government.
May 2015	The Advisory Council on the Environment urged the Government to implement the MSW charging scheme as soon as practicable.

Source: EPD records

Note: The Council comprises representatives from government departments and members from the environment, social and business sectors. It advises the Government on key issues relating to Hong Kong's long-term sustainability.

2.32 The Government set a time target in the 2005 Policy Framework that the MSW charging bill would be submitted to LegCo in 2007. However, up to August 2015 (eight years after the original time target), the MSW charging bill had not been submitted to LegCo. According to the EPD, the MSW charging bill would be submitted to LegCo as soon as practicable within the 2016-17 legislative session, and the implementation of MSW charging would contribute to 20% reduction in MSW generation which would significantly help reduce the quantity of MSW disposal at landfills. Therefore, the EPD needs to strengthen efforts with a view to implementing the MSW charging scheme as soon as possible.

Need to conduct a post-implementation review of the 2005 Policy Framework

2.33 In Chapter 4 of Part 8 of the PAC Report No. 51 of February 2009, the PAC recommended that the ENB and the EPD should keep the Committee informed of the progress made in achieving the MSW reduction target laid down in the 2005 Policy Framework and the measures taken to achieve the target. In May 2010, the ENB informed the PAC that it would regularly report to the EA Panel on the implementation progress of the 2005 Policy Framework. Given that the 10-year 2005 Policy Framework was completed in 2014, for public accountability and transparency, the EPD needs to conduct a post-implementation review of the achievement of 2005 Policy Framework and inform the EA Panel of the review results.

Audit recommendations

2.34 **Audit has *recommended* that the Secretary for the Environment and the Director of Environmental Protection should:**

Over-estimation of MSW-generation quantities

- (a) **in collaboration with the Commissioner for Census and Statistics and the Commissioner of Customs and Excise:**
 - (i) **take measures to obtain accurate statistics on the quantities of locally-generated recyclables recovered for export for estimating the MSW-generation quantities and recovery rates; and**
 - (ii) **strengthen actions to enhance the accuracy of import and export recyclable statistics and take remedial actions where warranted;**

Time targets for implementing PR schemes

- (b) **set revised time targets for implementing the PR schemes on vehicle tyres, packaging materials and rechargeable batteries;**
- (c) **expedite actions to implement the PR schemes on WEEE and glass beverage bottles;**

Implementation of MSW charging scheme

- (d) **strengthen efforts with a view to implementing the MSW charging scheme as soon as possible; and**

Implementation of 2005 Policy Framework

- (e) **conduct a post-implementation review of the implementation of the 2005 Policy Framework and inform the EA Panel of the review results.**

Response from the Government

2.35 The Secretary for the Environment and the Director of Environmental Protection agree with the audit recommendations. They have said that the ENB and the EPD will:

- (a) in collaboration with the C&SD and the C&ED, continue to implement measures to enable trade declarants to understand and comply with export declaration requirements for recyclables, and collect additional information from the recyclable-plastics exporters to enhance the MSW-recovery-rate estimation. They will also continue to exercise stringent control over EPD waste-disposal facilities to guard against any disposal of import waste;
- (b) study the PR schemes on other products such as rubber tyres, wood, packaging materials and rechargeable batteries from 2016 to 2018;
- (c) expedite action on the PR schemes on WEEE and glass beverage bottles. The WEEE Bill is being examined by LegCo, and the bill on glass beverage bottles was introduced to LegCo in July 2015; and
- (d) bring forward the preparatory work on formulating implementation plans of the MSW charging scheme, developing complementary systems, stepping up public education and community involvement, and drafting of the related legislation.

2.36 The Commissioner for Census and Statistics agrees with the audit recommendations in paragraph 2.34(a). He has said that:

- (a) the C&SD and the C&ED will continue to implement measures to facilitate trade declarants to understand and comply with the export declaration requirements for waste items to facilitate the EPD's compilation of recyclable statistics; and
- (b) the C&SD will continue to monitor the effectiveness of the new procedures for checking the domestic export declarations of waste plastics.

2.37 The Commissioner of Customs and Excise agrees with the audit recommendations in paragraph 2.34(a). He has said that:

- (a) the C&ED will strengthen actions to educate traders to provide accurate import and export recyclable statistics; and
- (b) the C&ED may initiate prosecution against any person who knowingly or recklessly lodges any declaration that is inaccurate in any material particular.

Implementation of producer responsibility scheme on plastic shopping bags

2.38 According to the 2005 Policy Framework:

- (a) plastic bags are non-biodegradable and their excessive consumption burdens the landfills; and
- (b) through implementing a PR scheme on PSBs, the Government aimed to cut back the number of bags used.

2.39 In May 2007, the ENB informed the EA Panel that the main objective of the PR scheme on PSBs was to inculcate behavioural changes to reduce excessive use of PSBs and to cultivate a bring-your-own-bag culture. In January 2008, the EPD informed LegCo that the PR scheme on PSBs could address the problem of a large number of PSBs being disposed of at landfills.

2.40 In July 2008, the Product Eco-responsibility Ordinance (Cap. 603) was enacted, which provided a legal framework for implementing PR schemes. In April 2009, the Product Eco-responsibility (Plastic Shopping Bags) Regulation (Cap. 603A — hereinafter referred to as the PSB Regulation) for implementing the first phase of the PR scheme on PSBs (hereinafter referred to as PSB Phase 1) was enacted, which came into effect in July 2009.

Reduction in municipal solid waste

- 2.41 Under the PSB Phase 1:
- (a) prescribed retailers (Note 11) providing PSBs (Note 12) to customers were required to register with the EPD and to charge customers not less than 50 cents for each PSB distributed;
 - (b) registered retailers were required to submit to the EPD quarterly returns on the number of PSBs distributed by the registered retail outlets and make payment to the EPD for the levy collected at 50 cents each;
 - (c) as of end of 2014, registered retailers comprised 48 chain-stores (mainly supermarkets, convenience stores and personal-item stores which met the criteria set out in the legislation — see Note 11 to (a) above) with a total of 3,534 registered retail outlets; and
 - (d) in 2014, registered retailers reported that their registered outlets had distributed 70.7 million PSBs and paid \$35.4 million of levy to the EPD.

In 2014-15, the EPD incurred about \$10 million in implementing PSB Phase 1.

Note 11: *A prescribed retailer under PSB Phase 1 was defined as one which carried out a retail business at five or more qualified retail outlets or at one or more qualified retail outlet with a retail floor area of not less than 200 m². A qualified retail outlet was one offering for sale at the same time all the three specified types of goods, i.e. food or drink, medicine or first aid items, and personal hygiene or beauty products. The prescribed retailer had to register the qualified retail outlets (registered outlets) and submit quarterly returns to the EPD.*

Note 12: *PSBs covered under PSB Phase 1 included:*

- (a) *PSBs that were wholly or partly made of plastic including non-woven bags; and*
- (b) *PSBs with a handle, handle hole, perforated line for tearing out a handle hole, carrying string or strap, or any other carrying device on, or attached to, the bags.*

2.42 In May 2011, the EPD informed LegCo that PSB Phase 1 had been implemented successfully, and that:

- (a) based on two landfill surveys (Note 13) conducted in mid-2009 (before PSB Phase 1) and mid-2010 (after PSB Phase 1), the number of pertinent PSBs (which bore the features of supermarkets, convenience stores or personal-item stores) disposed of at landfills had decreased from 657 million in 2009 to 153 million in 2010 (77% reduction); and
- (b) according to a government telephone survey, over 75% of the respondents did not ask for PSBs when shopping at registered retail outlets.

2.43 In March 2014, after conducting a three-month public consultation in 2011 and subsequent law drafting by the Government and scrutiny by LegCo, a bill was passed to amend the Product Eco-responsibility Ordinance which extended the PR scheme on PSBs to cover the entire retail sector with over 100,000 retail outlets (hereinafter referred to as PSB Phase 2), which came into effect on 1 April 2015. Different from PSB Phase 1, under PSB Phase 2:

- (a) all retailers would be covered under the extended scheme. However, retailers could retain the PSB charges and they are not required to keep records of distribution of PSBs nor submit related returns to the EPD;
- (b) flat-top bags would be subject to charge; and
- (c) notwithstanding (b), PSBs used to carry food containing in non-airtight packaging and frozen or chilled food would be exempted from the charge.

In 2014-15, the EPD incurred about \$14.8 million in preparing for the implementation of PSB Phase 2.

Note 13: *EPD landfill contractors conducted sample counting of PSBs disposed of at landfills on randomly selected loads of MSW in 40 days (for the 2010 landfill survey) and 53 days (for the 2009 landfill survey) to estimate the annual disposal quantities. During landfill surveys, according to the displayed features found on the bags, PSBs were classified into: (a) those bearing the features of supermarkets, convenience stores or personal-item stores; and (b) those not bearing such features.*

Reduction in municipal solid waste

Areas for improvement

Need to be more comprehensive in reporting the impact of the PR scheme on PSBs

2.44 Audit noted that, from 2009 to 2013, based on the EPD's landfill surveys, whilst the number of PSBs disposed of at landfills bearing the features of supermarkets, convenience stores or personal-item stores (pertinent PSBs) had decreased from 657 million to 116 million (82% decrease), the number of other PSBs had increased by 12% from 4,021 million to 4,506 million during the period (see Table 5).

Table 5

**Number and weight of PSBs disposed of at landfills
(2009 and 2013)**

	2009		2013		Increase/(decrease)	
	Number (a) (million)	Weight (b) (tonnes)	Number (c) (million)	Weight (d) (tonnes)	Number (e) = (c) – (a) (million)	Weight (f) = (d) – (b) (tonnes)
Pertinent PSBs (Note)	657	13,493	116	1,949	(541)	(11,544)
Other PSBs	4,021	64,942	4,506	65,222	485	280
Total	4,678	78,435	4,622	67,171	(56)	(11,264)

Source: Audit analysis of EPD records

Note: These refer to PSBs bearing the features of supermarkets, convenience stores or personal-item stores of both registered and non-registered retailers.

Remarks: The annual numbers and weight of PSBs were projected from the average daily numbers and weight of PSBs found in landfill surveys.

2.45 As shown in Table 5, implementation of PSB Phase 1 resulted in reduction of 541 million pertinent PSBs weighing 11,544 tonnes from 2009 to 2013. Although the reduction was notable, its impact in reducing the total MSW disposed of at landfills (3.48 million tonnes in 2013) was quite small.

2.46 According to the EPD, the objectives of implementing the PR scheme on PSBs included:

- (a) inculcating behavioural changes to avoid excessive use of PSBs and cultivating a bring-your-own-bag culture; and
- (b) addressing the problem of a large number of PSBs being disposed of at landfills (see para. 2.39).

Based on the 82% reduction in the number of pertinent PSBs being disposed of at landfills after implementing PSB Phase 1, the objective stated in (a) above was achieved.

2.47 Audit noted that, in proposing to implement the PR scheme on PSBs, the EPD did not inform LegCo of the weight of PSBs and their proportion to that of the total MSW disposed of at landfills, and the estimated weight reductions after implementation of the PR scheme. In October 2015, the ENB and the EPD informed Audit that:

- (a) it was the ENB/EPD's conscious decision to illustrate the waste problem associated with PSBs with reference to the number of PSBs being distributed or disposed of because the core objective of the PR scheme was to reduce the use of PSBs, which would lead to a reduction in weight of plastic used assuming that the thickness of PSBs remained largely consistent;
- (b) it was not uncommon that reference was made to the number of PSBs being distributed or disposed of in the deliberation on similar initiatives in other places in the world, such as Ireland and Taiwan; and
- (c) the general public would understand the PSB problem easier by using the "number of PSBs" as the "quantifier" to describe the problem.

Reduction in municipal solid waste

2.48 For public accountability and to enhance evaluation of the effectiveness of the PR scheme on PSBs, Audit considers that, in addition to the reduction in number of PSBs, the EPD should also provide LegCo with and publish information on the reduction in weight of PSBs disposal at landfills after implementation of the PR scheme on PSBs. This information will show the extent of relieving the pressure on landfills by the implementation of the PR scheme on PSBs.

Numbers of PSBs disposed of at landfills significantly greater than those distributed

2.49 Under the PSB Regulation, registered retailers under PSB Phase 1 were required to submit to the EPD quarterly returns on the number of PSBs distributed and remit the levy collected. On the other hand, EPD contractors conducted landfill surveys to estimate the number of pertinent PSBs of both registered and non-registered retailers having been disposed of at landfills. Table 6 shows the numbers of such PSBs obtained from the two sources.

Table 6
**Number of PSBs distributed and
disposed of at landfills under PSB Phase 1
(2010 to 2014)**

Year	2010	2011	2012	2013	2014
Number of PSBs distributed by registered retailers at registered outlets based on their returns (million)	49.8	53.6	59.5	66.0	70.7
Number of pertinent PSBs disposed of at landfills based on landfill surveys (million)	153	147	156	116	(Note)

Source: EPD records

Note: As of August 2015, the 2014 landfill survey statistics were not available.

2.50 In October 2015, the EPD informed Audit that:

- (a) some pertinent PSBs found in landfill surveys belonged to supermarkets, convenience stores or personal-item stores of non-registered retailers; and
- (b) pertinent PSBs found in landfill surveys might not be distributed by registered retail outlets because an outlet of a registered retailer, although carrying out related business, might not meet the requirements of a registered outlet (see Note 11 to para. 2.41(a)).

2.51 The EPD did not have statistics on the number of PSBs belonging to registered retail outlets being disposed of at landfills from 2010 to 2014. Accordingly, the reduction in the number of pertinent PSBs found in landfill surveys might not accurately reflect the effectiveness of the PR scheme on PSBs. Audit considers that the EPD needs to consider conducting consumer surveys to assess the effectiveness of PR schemes in future. The large variances between the numbers of PSBs distributed and disposed of at landfills would raise concerns over the accuracy of the data. The EPD therefore needs to strengthen actions with a view to improving the accuracy of statistics collected for evaluating the effectiveness of PR schemes in future.

Audit recommendations

2.52 **Audit has *recommended* that the Secretary for the Environment and the Director of Environmental Protection should:**

- (a) **consider conducting consumer surveys to assess the effectiveness of PR schemes in future; and**
- (b) **strengthen actions with a view to improving the accuracy of statistics collected for evaluating the effectiveness of PR schemes in future.**

Response from the Government

2.53 The Secretary for the Environment and the Director of Environmental Protection agree with the audit recommendations. They have said that the ENB and the EPD will:

- (a) in addition to conducting landfill surveys, consider tracking behavioural changes of consumers through dedicated surveys to assess the disposal of PSBs under PSB Phase 2; and
- (b) strengthen actions to collect reliable statistics in assessing effectiveness of PR schemes in future.

PART 3: RECOVERY OF MUNICIPAL SOLID WASTE

3.1 This PART examines the actions taken by the ENB and the EPD in recovery of MSW, focusing on:

- (a) achievement of MSW-recovery targets (paras. 3.2 to 3.21); and
- (b) implementation of the source-separation programme (SS Programme — paras. 3.22 to 3.40).

Achievement of MSW-recovery targets

3.2 Waste recovery comprises processes of waste recycling, composting and energy generation, aiming to extract the maximum benefits from products, postpone the consumption of virgin resources, and reduce the quantity of waste disposed of at landfills so as to minimise landfill use. MSW-recovery rate is a key performance indicator of the recovery efforts made.

3.3 According to the EPD, an MSW-recovery rate is calculated by:

$$\frac{\text{Quantity of MSW recovered}}{\text{Quantity of MSW generated}} \times 100\%$$

3.4 The 2005 Policy Framework set the following two targets for increasing the MSW-recovery rate to:

- (a) 45% by 2009; and
- (b) 50% by 2014.

Recovery of municipal solid waste

3.5 As stated in the 2005 Policy Framework, in order to increase MSW recovery, the EPD would roll out an SS Programme under which waste-separation bins (WS bins) would be provided at appropriate locations for separation and collection of recyclables (mainly recyclable plastics, metals and paper).

3.6 In the 2013 Blueprint, the Government stated that it would continue the on-going efforts to step up the SS Programme. As shown in the 2013 Blueprint, in 2022, 55% of MSW would be recycled, 23% treated by incineration and 22% disposed of at landfills.

Areas for improvement

Over-estimation of MSW-recovery rates

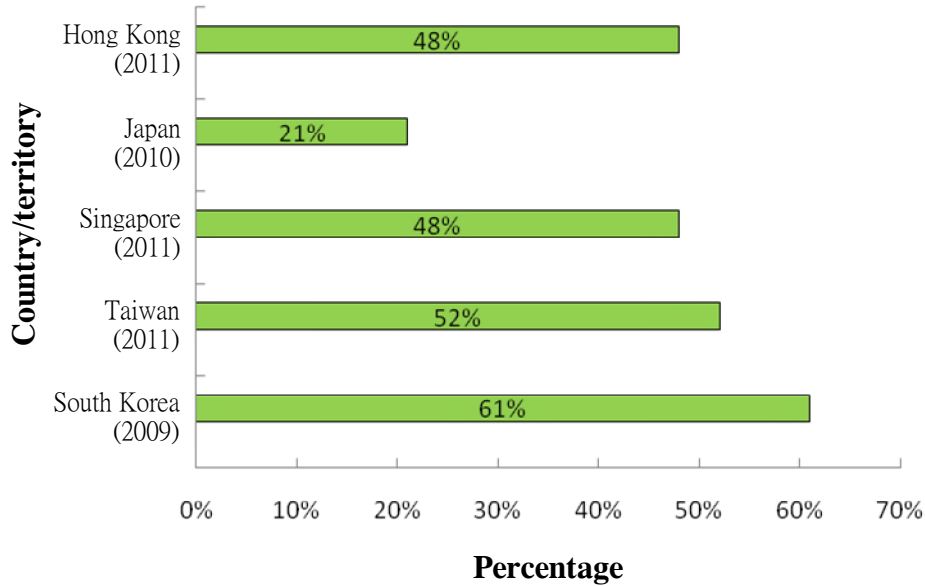
3.7 In March 2012, the EPD informed the EA Panel that:

- (a) as at 2010, the MSW-recovery rate of Hong Kong stood at 52%, which exceeded the Government's original target of attaining an MSW-recovery rate of 50% by 2014; and
- (b) the Government aimed to raise the MSW-recovery rate to 55% by 2015 through a range of enhanced or new initiatives.

3.8 The 2013 Blueprint showed the MSW-recovery rates of nearby countries and territories at a similar level of economic development of Hong Kong (see Figure 7). Figure 8 shows the targets and published MSW-recovery rates from 2005 to 2013.

Figure 7

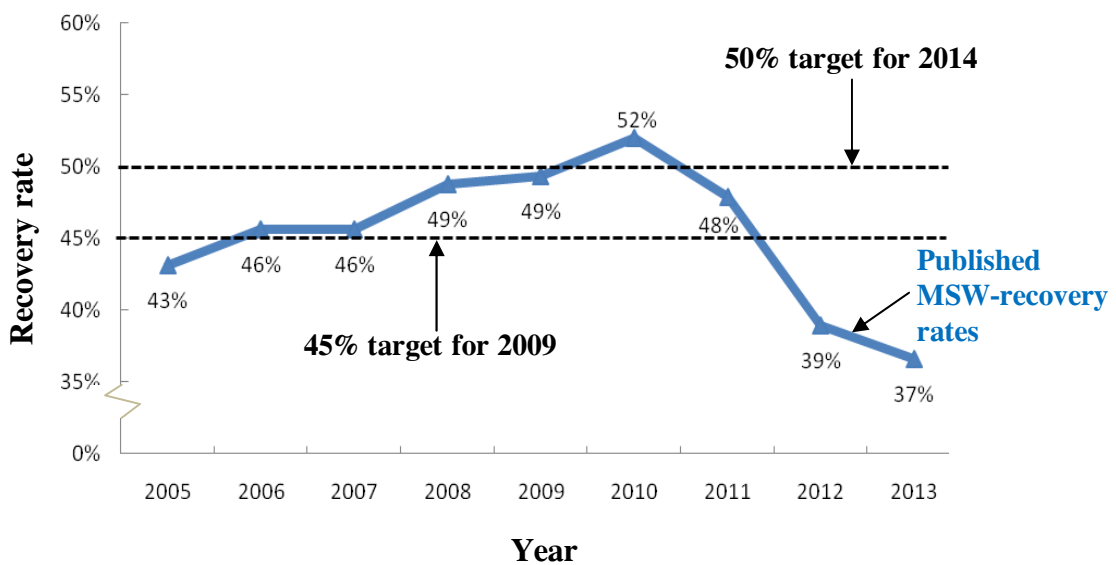
MSW-recovery rates of some Asian countries/territories



Source: EPD records

Figure 8

Targets and published MSW-recovery rates (2005 to 2013)



Source: EPD records

Recovery of municipal solid waste

3.9 As stated in paragraph 2.7, the quantity of MSW generation was the sum of the quantities of:

- (a) MSW disposed of at landfills;
- (b) locally-generated recyclables recovered for local use; and
- (c) recyclables recovered for export.

3.10 An MSW-recovery rate is calculated based on the quantities of the MSW recovered for local use and export, and MSW generation. However, as mentioned in paragraph 2.11, the statistics used by the EPD in arriving at the quantity of locally-generated MSW recovered for export comprised unknown quantities of import recyclables processed for export, which had distorted the numerator and denominator of the formula used in computing the MSW-recovery rate. For example, in 2013, the MSW-recovery rate of 37% was derived from:

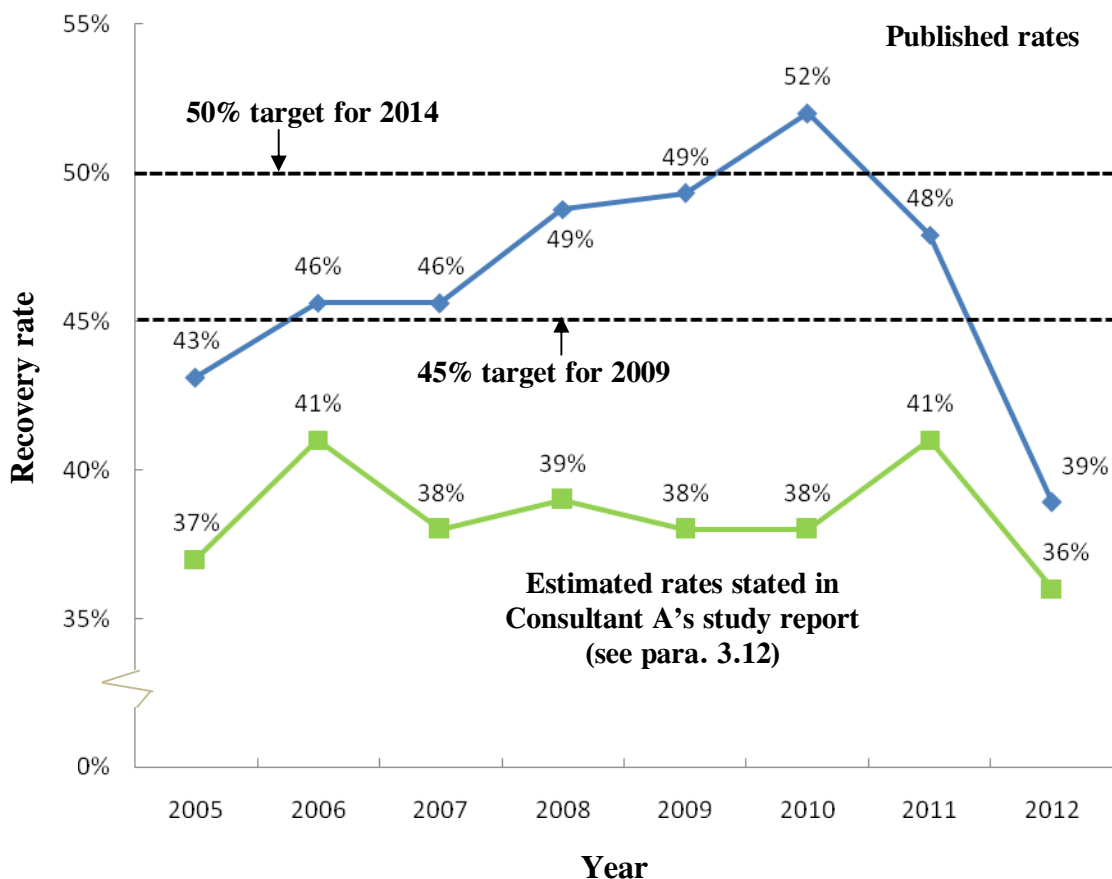
$\frac{0.14 \text{ million tonnes of locally-generated recyclables recovered for local use} + 1.87 \text{ million tonnes of locally-generated and import recyclables recovered/processed for export ("A")}{3.48 \text{ million tonnes of MSW disposed of at landfills} + ("A")} \times 100\%$

3.11 In view of the fact that both the quantities of MSW generation and MSW recovered had incorrectly included that of import recyclables processed for export, the possible increases in the quantity of import recyclables processed for export from 2005 to 2010 might have led to increases in the MSW-recovery rates from 43% to 52% during the period (a 21% increase), and the possible decreases of which from 2010 to 2013 might have led to decreases in the MSW-recovery rates from 52% to 37% during the period (a 29% decrease).

3.12 Owing to the fact that the trade declarations did not show separate statistics for locally-generated recyclables recovered for export and import recyclables processed for export, the EPD was unable to accurately compute the MSW-recovery rates in the past years. In his study report of February 2014, Consultant A found that there were abnormal fluctuations in the quantities of recyclable plastics but not waste paper and metals (see para. 2.16). He made estimates of the MSW-recovery rates for 2005 to 2012 based on the quantities of locally-generated recyclable plastics recovered for export obtained from the EPD's

annual waste recovery surveys (see para. 2.8(b)). Details are shown in Figure 9. According to Consultant A, due to the incomplete coverage and less-than-100% response rates of the surveys, the estimated rates were lower-bound estimates and should not be adopted alone to represent the overall waste-recovery situation in Hong Kong. Audit considers that, although the estimates had some limitations, a comparison of the waste-recovery rates based on trade-declaration information and those based on results of waste-recovery surveys would provide some insights into the potential magnitude of the distortions of the published MSW-recovery rates in previous years.

Figure 9
Published and estimated MSW-recovery rates
(2005 to 2012)



Source: Audit analysis of EPD records

Remarks: Both the published rates and Consultant A's estimated rates accounted for the quantities of recyclable plastics, metals and paper and other recyclables.

Recovery of municipal solid waste

3.13 Audit noted that the MSW-recovery-rate targets and published recovery rates had been over-estimated in the past years. In Audit's view, the EPD needs to improve the methodology for estimating the quantities of locally-generated recyclables recovered for export (see para. 2.34(a)), and vigilantly monitor significant fluctuations in the MSW-recovery rates and ascertain the causes as soon as possible in future. It also needs to periodically publish the enhanced MSW-recovery rates achieved.

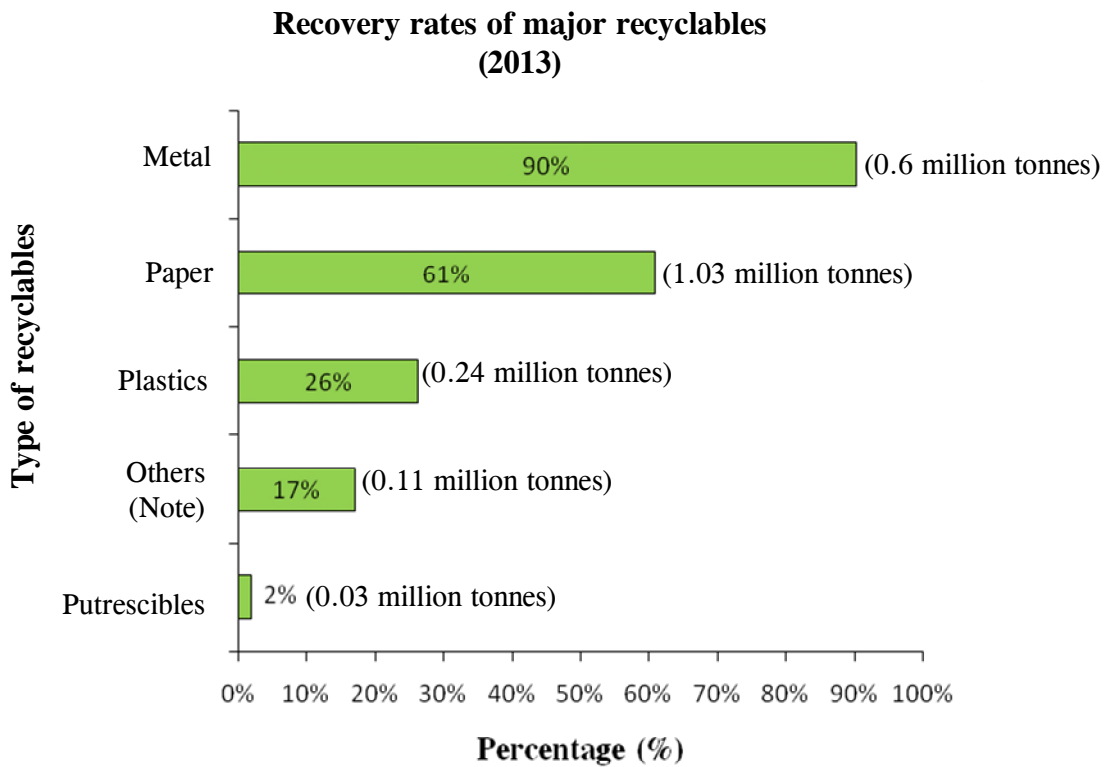
Need to take action to increase the low recovery rate of waste plastics

3.14 According to the EPD:

- (a) in 2013, the total weight of recovered waste plastics, paper and metals of 1.87 (0.24+1.03+0.6) million tonnes accounted for 93% of the total 2.01 million tonnes (see Figure 1 in para. 1.2) of MSW recovered in the year;
- (b) the waste collection industry in Hong Kong is more willing to collect higher-value recyclables, such as waste metals, paper and electrical and electronic products, for reprocessing or reuse; and
- (c) for lower-value recyclables, such as waste plastics and glass, and food waste, their low commercial value is not attractive to the waste collection industry.

3.15 Figure 10 shows the recovery rates of major recyclables in 2013. Audit noted that the recovery rates shown in Figure 10 had subsumed unknown quantities of import recyclables processed for export which should have been excluded (see para. 3.11).

Figure 10



Source: Audit analysis of EPD records

Note: Other recyclables mainly included waste glass, rubber tyres, textiles, wood, and electrical and electronic equipment.

3.16 In December 2014, the EPD published a report on “A Study to Promote Recycling of Plastics, Paper and Cooking Oil in Hong Kong”. As stated in the report:

- (a) the scarcity of land, high labour cost involved in intensive sorting and high transportation costs were major factors adversely affecting the waste-plastics recovery; and
- (b) the plastic-recycling trade was highly vulnerable to the changes in supply of and demand for waste plastics, as well as the Mainland’s related national policies. In view of the lower profit margin of waste plastics than other recyclables, it was commercially less attractive for the trade to

Recovery of municipal solid waste

invest in recycling this type of recyclables. In order to increase the commercial value of recyclable plastics, the Government needed direct measures to:

- (i) promote separation of different types of waste plastics at source with a view to reducing mixing of different types of waste plastics, and raising public awareness of preventing contamination of recyclable plastics in order to maximise recycling opportunities; and
- (ii) provide financial assistance to promote waste-plastics recycling, taking into account that the low density and bulky nature of waste plastics would increase the cost of collection and require large storage areas.

3.17 In July 2015, LegCo approved the setting up of the Recycling Fund with a financial injection of \$1 billion to facilitate local recycling industries to upgrade their operational capabilities and efficiency to enhance sustainable development. The EPD would set up a committee to oversee the operation of the Fund and process funding applications from recyclers for facilitating the upgrading of related recycling operations. According to the EPD, one of the guiding principles for assessing a funding application would be the capability of a project in raising the quantity and quality of recycled products. The Recycling Fund was launched in early October 2015.

3.18 Audit considers that, in view of the low recovery rate and low profit margin of waste plastics, the EPD needs to review its strategy on separation and recycling of waste plastics, and consider providing appropriate assistance through the Recycling Fund (see paras. 3.16(b)(ii) and 3.17) to promote the sustainable development of the recycling industry with a view to enhancing the recovery and recycling of waste plastics.

3.19 Furthermore, the EPD also needs to closely monitor the quantity of recovery of locally-generated waste plastics reused locally or exported outside Hong Kong, and periodically publish the recovery quantities.

Audit recommendations

3.20 Audit has *recommended* that the Secretary for the Environment and the Director of Environmental Protection should:

Over-estimation of MSW-recovery rates

- (a) **vigilantly monitor significant fluctuations in the MSW-recovery rates and ascertain the causes as soon as possible in future;**
- (b) **periodically publish the enhanced MSW-recovery rates achieved;**

Low recovery of waste plastics

- (c) **consider providing appropriate assistance through the Recycling Fund to promote the sustainable development of the waste-plastics recycling industry with a view to enhancing the recovery and recycling of waste plastics; and**
- (d) **closely monitor and periodically publish the quantity of recovery of locally-generated waste plastics.**

Response from the Government

3.21 The Secretary for the Environment and the Director of Environmental Protection agree with the audit recommendations.

Implementation of source-separation programme

3.22 Locally-generated recyclables being recovered for local use or export is sourced mainly from recyclable plastics, metals and paper which are:

- (a) deposited in WS bins, and collected and transported to recyclers mainly by government contractors; or
- (b) directly transported to recyclers by individual waste collectors and waste producers.

Recovery of municipal solid waste

3.23 Recyclers usually carry out processes on recyclables collected (such as sorting, shredding and cleaning of waste plastics, and compression and baling of waste paper) before exporting them outside Hong Kong.

3.24 As laid down in the 2005 Policy Framework, the SS Programme aimed to:

- (a) improve the recyclables-collection network by providing WS bins at both public places (such as roadside, government buildings, public housing estates, schools, public recreational venues and country parks) and private places (such as C&I buildings and private housing estates) throughout the territory; and
- (b) foster public participation in waste separation and recovery at source, which would help improve waste recovery and recycling.

3.25 The related targets set under the 2005 Policy Framework included:

- (a) domestic MSW recovery would increase from 14% in 2004 to 26% by 2012; and
- (b) 80% of Hong Kong's population would join the SS Programme on domestic waste by 2010.

3.26 In September 2015, the EPD informed Audit that:

- (a) the key objectives of the SS Programme were to disseminate information on waste reduction and recycling, and to encourage public participation in waste reduction and source separation of waste; and
- (b) as reflected by the increasing participation rates in the related schemes, the implementation of the SS Programme since 2005 had contributed to raising the public awareness about waste reduction and recycling.

3.27 As of August 2015, under the SS Programme, the following government departments were responsible for providing WS bins and collecting recyclables at specific locations:

- (a) the FEHD would provide WS bins at public places at roadside and villages, as well as refuse-collection points under its management. The FEHD also collected recyclables from WS bins provided at 848 schools, 20 clinics under the management of the Department of Health, and one collection point each at a venue of the EPD and the Water Supplies Department;
- (b) the Housing Department would provide WS bins at public housing estates;
- (c) the Leisure and Cultural Services Department (LCSD) would provide WS bins at parks, sports venues, and leisure and cultural facilities; and
- (d) the Agriculture, Fisheries and Conservation Department (AFCD) would provide WS bins at country parks.

3.28 The related government departments engaged contractors to collect the recyclables deposited into WS bins at specific time intervals or when being notified of the bins reaching full capacity. The contractors were required to transport the recyclables to recyclers for processing. These government departments provided the EPD with statistics on the quantities of recyclables collected from WS bins. For waste-plastics recyclers nominated under recyclable-collection-service contracts of the FEHD, the LCSD and the AFCD, the EPD conducted checking and evaluation of the facilities of nominated recyclers before designating the satisfactory ones as approved recyclers for receiving waste plastics under the contracts.

3.29 The SS Programme for the domestic sector was implemented in 2005. As published on EPD website, as of end 2010, 1,637 housing estates (comprising public rental housing estates, government quarters and private estates) and over 700 rural villages had joined the SS Programme, with residents representing 80.5% of Hong Kong's population, exceeding the target of 80% (see para. 3.25(b)).

3.30 In 2013, the EPD commissioned a consultant (Consultant B) to carry out a survey on the public awareness and participation rate of the SS Programme. The survey results found that over 80% of the respondents had heard of the SS Programme and the majority of the respondents practised waste separation and recycling, though they might selectively recycle part of their waste or only practise recycling when convenient to them.

Recovery of municipal solid waste

3.31 The SS Programme for the C&I sector was implemented in 2007. According to the EPD:

- (a) the number of participating C&I buildings increased from 442 in 2008 to 860 in 2013; and
- (b) the average quantity of recyclables recovered by the participating buildings increased from 22.7 tonnes per-building-per-year in 2008 to 29.7 tonnes per-building-per-year in 2013 (a 31% increase).

Areas for improvement

Insufficient statistics for assessing effectiveness of SS Programme

3.32 Under the SS Programme, the EPD would send invitations to both public and private estates, villages and C&I buildings inviting them to participate in the Programme. For estates, villages and C&I buildings indicating agreement to join the SS Programme, they could apply for funding from the Environment and Conservation Fund (Note 14) for procuring WS bins. The participating estates and C&I buildings needed to arrange for the collection and transportation of recyclables to recyclers. The EPD requested the participating estates and C&I buildings to provide it with statistics on the quantities of recyclables collected from WS bins. The FEHD also provided the EPD with statistics on the quantities of recyclables collected from WS bins at public places at rural villages and roadside, as well as refuse-collection points under its management.

3.33 Audit examination revealed that:

- (a) as of end 2013, 1,979 housing estates (comprising public rental housing estates, government quarters and private estates) and 700 rural villages had joined the SS Programme, with residents representing 82.5% of Hong Kong's population. Moreover, 860 C&I buildings had also joined the SS Programme;

Note 14: *The Environment and Conservation Fund was established in 1994 under the Environment and Conservation Fund Ordinance (Cap. 450). The Fund provides funding support for educational, research, technology demonstration and other projects and activities in relation to environmental and conservation matters, as well as community waste recovery projects. The Secretary for the Environment is the trustee of the Fund and the EPD acts as its administrative arm.*

- (b) in 2013, 971 (49%) of the 1,979 housing estates provided the EPD with statistics of the quantities of recyclables (85,870 tonnes) collected from WS bins;
- (c) in 2013, the FEHD collected 707 tonnes of recyclables from WS bins provided at public places at roadside and villages, refuse-collection points under its management, 879 schools, 485 collection points at LCSD venues and 17 collection points at country parks, and 4 tonnes from WS bins provided at 20 clinics under the management of the Department of Health and one collection point each at one venue of the EPD and the Water Supplies Department (Note 15);
- (d) in 2013, 582 (68%) of the 860 C&I buildings, including government offices, provided the EPD with statistics of the quantities of recyclables (25,575 tonnes) collected from WS bins; and
- (e) in 2013, 86,577 tonnes (85,870 tonnes plus 707 tonnes) and 25,575 tonnes of recyclables were collected from WS bins provided at the domestic and C&I sector respectively (totalled 112,152 tonnes).

3.34 Audit noted that, in 2013, 1,008 (51%) of the 1,979 participating housing estates and 278 (32%) of the 860 participating C&I buildings did not provide the EPD with the related statistics, which had adversely affected the assessment of the effectiveness of the SS Programme. In Audit's view, the EPD needs to strengthen promotion efforts to encourage participating estates and C&I buildings to provide related statistics by completing and returning standard forms. The EPD also needs to consider publishing the number of participating housing estates and the corresponding population which have provided the EPD with related statistics and those not providing the statistics.

Note 15: *Since 1 August 2014, the FEHD has ceased providing collection of recyclables from WS bins provided at LCSD venues and country parks, as the LCSD and the AFCD have made their own collection arrangements.*

Recovery of municipal solid waste

- 3.35 In October 2015, the EPD informed Audit that:
- (a) there was no mechanism to account for the quantity of recyclables taken by the public for recycling through other channels;
 - (b) upon joining the SS Programme, the management agent of a housing estate/building might provide monthly reports of the quantities of recyclable waste recovered through a designated account on the Hong Kong Waste Reduction website or providing the information to the EPD by fax. It would strengthen promotion efforts through enhanced communications with the housing estates and C&I buildings with a view to achieving a better response rate;
 - (c) it had published on the Hong Kong Waste Reduction website a list of participating housing estates/buildings and a list of award-winning housing estates and residential buildings in the annual competitions under the SS Programme. It had also included in the published lists of award-winning housing estates and residential buildings the average per-household-per-day quantities of recyclables collected by the estates/buildings with reference to the awards they obtained. For example, a housing estate or building would be extended a Diamond Award if their average recyclables collected were equal to or greater than 30 kg per household per month; and
 - (d) it would continue to solicit support from participating estates/buildings for publishing more information relating to the per-household-per-day quantities of recyclables collected by them.

With a view to enhancing the evaluation of effectiveness of the SS Programme and to encourage participating estates to increase collection of recyclables, the EPD needs to compute and publish the per-household-per-day quantities of recyclables collected from the participating estates which have provided the EPD with related statistics.

3.36 The related government departments (the FEHD, the LCSD, the Housing Department and the AFCD — see para. 3.27) and the C&I sector provided the EPD with statistics of the annual quantities of recyclables collected from WS bins by their contractors. The total quantity of such recyclables collected in 2013 was 112,152 tonnes (see para. 3.33(e)). In the year, the FEHD incurred \$6.35 million

for collecting recyclables weighing 711 tonnes (707 plus 4 tonnes) from WS bins (see para. 3.33(c)), representing an average cost of \$8,931 per tonne of recyclables collected. The Housing Department, the LCSD and the AFCD did not have related cost information because recyclables collection was part of the cleansing work under their cleansing contracts.

3.37 Audit noted that government contractors would separate recyclables collected into contaminated ones and non-contaminated ones. According to the EPD, for hygiene reasons, the former would be disposed of at landfills and the latter transported to approved recyclers. In September and October 2015, the EPD informed Audit that:

- (a) in early 2015, the EPD launched a Clean Recycling Campaign to arouse public awareness on the contamination problem of recyclables and encourage them to practise clean recycling. The Campaign aimed to promote source separation and cleaning of recyclables at the community level, so as to increase the recovery rate and recycling value of recyclables;
- (b) there were practical difficulties and inherent limitation in obtaining the quantities of recyclables collected which were disposed of at landfills due to contamination or other reasons, or those which were actually recovered and used locally or exported outside Hong Kong;
- (c) in the recyclable collection service contracts, the FEHD, the AFCD, the LCSD, the Housing Department and other government-office-management agents did not have contractual authority to require their contractors to obtain and provide statistics on the quantities of recyclables collected which were disposed of at landfills due to contamination or other reasons. Bringing in contractual requirements for contractors to compile additional statistics would take considerable time and would substantially increase the operation costs; and
- (d) the collection of recyclables at a private housing estate/C&I building was coordinated by the property management company. While the EPD would continue to liaise with property management companies to obtain statistics on quantities of contaminated recyclables discarded, many of them might have reservations to provide the information because additional resources would be required to weigh and report the quantities of contaminated recyclables discarded.

Recovery of municipal solid waste

3.38 Audit noted that members of the public had made efforts to clean and deliver recyclable plastics to WS bins and the FEHD had incurred about \$9,000 for collecting a tonne of recyclables from WS bins (see para. 3.36). With a view to enhancing public accountability and transparency, ascertaining the magnitude of the recyclables contamination problem and better evaluating the effectiveness of the SS Programme, Audit considers that there are merits for the EPD to take actions to ascertain and publish the quantities of recyclables collected which are disposed of at landfills due to contamination or other reasons, and those actually recovered and used locally or exported outside Hong Kong.

Audit recommendations

3.39 Audit has *recommended* that the Secretary for the Environment and the Director of Environmental Protection should, in implementing the SS Programme:

- (a) strengthen promotion efforts to encourage participating housing estates and C&I buildings to provide the EPD with statistics on recyclables collected from WS bins by completing and returning standard forms;
- (b) consider publishing the number of housing estates and the corresponding population which have provided the EPD with statistics on recyclables collected and those not providing the statistics; and
- (c) compute and publish the per-household-per-day quantities of recyclables collected by the participating estates which have provided the EPD with statistics on recyclables collected.

Response from the Government

3.40 The Secretary for the Environment and the Director of Environmental Protection agree with the audit recommendations.

PART 4: RECYCLING OF MUNICIPAL SOLID WASTE

4.1 This PART examines the actions taken by the ENB and the EPD in facilitating MSW recycling.

Operation of EcoPark

4.2 According to the 2005 Policy Framework, the objectives of the EcoPark project were to:

- (a) provide long-term land at affordable cost for the recycling industry; and
- (b) encourage investment in value-added and higher-end environmental and recycling technologies that help minimise waste generation.

4.3 According to a paper seeking funding for constructing EcoPark submitted to LegCo in February 2006, the EcoPark would:

- (a) provide an outlet for locally recovered materials and alleviate the heavy reliance on exporting recyclables; and
- (b) achieve a target throughput of 58,600 tonnes a year.

In March 2006, the FC approved funding of \$319 million for the development of EcoPark occupying an area of 20 ha in Tuen Mun Area 38. In July 2006, construction works commenced. The construction works were completed at a cost of \$308 million.

Recycling of municipal solid waste

4.4 In November 2006, the EPD awarded a contract to a management company to manage, maintain and market EcoPark for 7 years from April 2007 at a total cost of \$98.5 million. With the approval of the Financial Services and the Treasury Bureau, the management contract was extended from April 2014 to October 2014. In September 2014, after conducting open tendering, the EPD awarded a contract to another company to manage and maintain EcoPark for 4 years from October 2014 at a total cost of \$59 million. EcoPark comprises the following three parts:

- (a) an administration building, roads and marine frontage occupying an area of 6.6 ha which were completed between May 2007 and October 2010;
- (b) Phase 1 comprising six land lots (Lots 1 to 6) occupying a total area of 3.6 ha which were made available for leasing from December 2006; and
- (c) Phase 2 comprising 10 land lots (Lots 7 to 16) occupying a total area of 9.8 ha which were made available for leasing in three stages, namely Lots 7 and 8 in October 2009, Lots 9 to 14 in January 2011 and Lots 15 and 16 in July 2012.

4.5 According to the EPD, as of August 2015:

- (a) except Lots 4 and 15 (see Tables 7 and 8), the remaining 14 land lots occupying a total area of 12.5 ha had been leased/allocated for recycling operation;
- (b) the quantity of recyclable materials recovered by tenants had increased from about 9,000 tonnes in 2010 to more than 150,000 tonnes in 2014; and
- (c) EcoPark had created about 200 new jobs for labourers, and management and technical personnel.

Tables 7 and 8 respectively show the use of land lots under Phases 1 and 2 of EcoPark as of August 2015.

Table 7

**Use of six land lots under EcoPark Phase 1
(August 2015)**

Lot	Lot size (m²)	Monthly Rental	Recyclables for processing	Minimum throughput according to tenancy (tonnes per quarter)
1	5,000	\$80,000	Waste plastics	1,000
2	9,500	\$200,000	Waste metals	10,000
3	5,000	\$53,250	Waste wood	600
4	4,000	(Note)	(Note)	(Note)
5	6,500	\$85,000	Waste computers	300
6	6,000	\$50,000	Used cooking oil	1,500
Total	36,000 (or 3.6 ha)	\$468,250	—	13,400

Source: EPD records

Note: In the light that the tenant did not commence operation long after the time specified in the tenancy, the EPD issued a termination letter to the tenant in January 2013. As of August 2015, the EPD was taking litigation action against the tenant for repossession of Lot 4 (see paras. 4.15 to 4.17).

Recycling of municipal solid waste

Table 8
Use of 10 land lots under EcoPark Phase 2
(August 2015)

Lot	Lot size (m ²)	Rental	Recyclables for processing	Minimum throughput according to tenancy	
				Quantity (tonnes)	Quantity per quarter (tonnes)
7 (Note 1)	5,000	\$1 per quarter	WEEE	20 tonnes per month (not less than 720 tonnes over 3 years)	60
8 (Note 1)	9,070	\$1 per quarter	Waste plastics	About 6 tonnes per day	540
9	4,400	\$45,000 per month	Rubber tyres/ WEEE/oil	Rubber tyres: 190 tonnes per month WEEE: 90 tonnes per month Oil: 30 tonnes per month	570 270 90
10	10,000	\$200,000 per month	Lead-acid batteries	300 tonnes per month	900
11	10,000	\$150,000 per month	Construction and demolition materials/glass	Construction and demolition materials: 3,500 tonnes per month Glass: 183 tonnes per month	10,500 549
12	8,500	\$180,000 per month	Food waste	2,800 tonnes per month	8,400
13	10,000	\$180,000 per month	Waste metals	4,500 tonnes per month	13,500
14	5,000	\$80,000 per month	WEEE	450 tonnes per month	1,350
15	5,000	(Note 2)	(Note 2)	(Note 2)	(Note 2)

Recycling of municipal solid waste

Table 8 (Cont'd)

Lot	Lot size (m ²)	Rental	Recyclables for processing	Minimum throughput according to tenancy	
				Quantity (tonnes)	Quantity per quarter (tonnes)
16	30,970	(Note 3)	WEEE	Electrical appliances: 4,000 tonnes per month Electronic equipment: 800 tonnes per month	12,000 2,400
Total	97,940 (or 9.8 ha)	\$835,001 per month	—	—	51,129

Source: Audit analysis of EPD records

Note 1: Lots 7 and 8 were respectively leased to two non-governmental organisations (NGOs).

Note 2: Lot 15 was originally designated for use as a works area during plant construction at Lot 16 but the use was later not required (see paras. 4.22 to 4.26). The land lot was available for leasing as of September 2015.

Note 3: In order to support the implementation of the PR scheme on WEEE, in March 2015, the EPD engaged a contractor under a design-build-and-operate contract for building and operating a WEEE treatment facility at Lot 16 (see para. 4.22).

Areas for improvement

4.6 Audit examination revealed that:

- (a) of the six land lots under Phase 1, three involved unsatisfactory issues, including low recycling throughput (see paras. 4.7 to 4.10), prolonged suspension of recycling operation (see paras. 4.11 to 4.14) and land lot not being repossessed for re-letting long time after lease termination (see paras. 4.15 to 4.17); and

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- (b) of the 10 land lots under Phase 2, three land lots involved long delays in commencing operation (see paras. 4.18 to 4.21) and some existing tenants had been permitted to use two land lots free of charge (see paras. 4.22 to 4.26).

Throughput of Lot 1 not meeting tenancy requirement

4.7 In April 2008, after conducting open tendering, the EPD entered into a tenancy (Tenancy A) with a tenant (Tenant A) at a monthly rent of \$80,000 for recycling waste plastics at Lot 1 (with an area of 5,000 m²) for 10 years. Under Tenancy A, Tenant A should commence operation from June 2009 (12 months from site possession), and was required to process 1,000 tonnes of waste plastics per quarter. The recycling process involved sorting, baling and shredding of waste plastics for export to the Mainland. In January 2011, Tenant A commenced operation.

4.8 Notwithstanding that Tenant A was required under Tenancy A to recycle 1,000 tonnes of waste plastics per quarter, the average actual quantities of waste plastics processed at Lot 1 significantly fell short of the tenancy requirement (see Table 9).

Table 9

Required and average actual throughput of Lot 1

Required throughput per quarter (tonnes)	Average actual throughput per quarter (tonnes)			
	2011	2012	2013	2014
1,000 (100%)	160 (16%)	588 (59%)	849 (85%)	718 (72%)

Source: EPD records

4.9 In October 2015, the EPD informed Audit that:

- (a) the significant fluctuations in the market prices of recyclable plastics had affected the business of Tenant A. The EPD had assisted Tenant A to expand its business networks and explore partnership arrangements with relevant organisations such as trade associations, NGOs and government departments; and
- (b) it had issued warning letters on Tenant A's failure to comply with the minimum throughput requirement. Tenant A had achieved the required throughput since January 2015.

4.10 Audit considers it unsatisfactory that, from 2011 to 2014, the actual throughput of Lot 1 only accounted for 16% to 85% of the throughput as specified in Tenancy A. Audit considers that, with a view to attaining the required throughput set for each land lot as far as possible, the EPD needs to monitor the throughput of the tenants closely, provide necessary assistance to the related tenants, and explore ways and means to effectively enforce tenants' compliance with the minimum-throughput requirement stated in EcoPark tenancies in future.

Prolonged suspension of recycling operation at Lot 3

4.11 In April 2007, after conducting open tendering, the EPD entered into a tenancy (Tenancy B) with a tenant (Tenant B) at a monthly rent of \$53,250 for recycling waste wood at Lot 3 (with an area of 5,000 m²) for 10 years. Under Tenancy B, Tenant B should commence operation from May 2008 (12 months from site possession), and was required to process 600 tonnes of waste wood per quarter. The recycling process involved shredding of waste wood into wood chips for export to the Mainland for manufacturing flakeboards. In February 2010, Tenant B commenced construction works for related buildings. In May 2010, Tenant B commenced operation.

4.12 In November 2011, Tenant B suspended business. According to Tenant B, owing to the low selling price of wood chips and high transportation cost, the business had become financially not viable. In mid-2012, Tenant B commenced modification works to upgrade the production line for manufacturing wood-fuel pellets which had a higher value. In July 2013, Tenant B changed the operation to

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recycling waste wood into wood-fuel pellets. In January 2015, Tenant B again suspended operation. Tenant B informed the EPD that he was planning to adjust his operation mode to producing both wood chips and wood-fuel pellets for export to the Mainland. On 8 September 2015, the EPD issued a warning letter to Tenant B, requiring him to resume operation by October 2015. Subsequently, Tenant B resumed operation on 17 September 2015.

4.13 Audit considers it unsatisfactory that:

- (a) Tenant B only commenced recycling operation in May 2010, 24 months after the time specified in Tenancy B;
- (b) waste-wood recycling operation at Lot 3 was suspended for 20 months from November 2011 to June 2013; and
- (c) the recycling operation was again suspended for 8 months from January to September 2015.

4.14 In Audit's view, the EPD needs to closely liaise with Tenant B with a view to facilitating continued operation of the waste-wood recycling business at Lot 3. Furthermore, with a view to minimising prolonged suspension of recycling operation by tenants, the EPD also needs to explore ways and means to effectively enforce tenants' compliance with the operation requirement stated in EcoPark tenancies in future. These actions would help better achieve the objectives of EcoPark.

Lot 4 not repossessed for re-letting long time after lease termination

4.15 In February 2009, after conducting open tendering, the EPD entered into a tenancy (Tenancy C) with a tenant (Tenant C) at a monthly rent of \$41,000 for recycling used batteries at Lot 4 (with an area of 4,000 m²) for 10 years. Under Tenancy C, Tenant C should commence operation from August 2010 (12 months from site possession), and he was required to process 30 tonnes of used batteries per quarter. In December 2010, Tenant C commenced construction works for related buildings.

4.16 In August 2012, under section 58 of the Conveyancing and Property Ordinance (Cap. 219) (Note 16), the EPD issued a final notice requiring Tenant C to commence operation by November 2012. In October 2012, Tenant C proposed to commence operation in January 2013. In January 2013, noting Tenant C's failure to commence operation, the EPD issued a termination letter demanding Tenant C to deliver vacant possession of Lot 4 within three months. In April 2013, the EPD issued another letter to demand Tenant C to deliver vacant possession of Lot 4 and stated the EPD's right to commence legal proceedings. In May 2013, the EPD referred the case to the Department of Justice. In November 2014, Tenant C proposed to settle the issue by mediation. In December 2014, the EPD agreed to resolve the dispute by mediation. In August 2015, Tenant C had not responded to the proposed mediation arrangement. After consulting the Department of Justice, the EPD decided to proceed to take litigation actions.

4.17 Under Tenancy C, Tenant C should commence operation from August 2010. However, up to August 2015, five years after the commencement date specified in Tenancy C, the used-battery recycling operation at the land lot had not commenced. In Audit's view, the long delay in commencing the used-battery recycling operation at EcoPark is unsatisfactory which has adversely affected achievement of the objectives of EcoPark. Therefore, the EPD needs to expedite necessary actions with a view to repossessing Lot 4 and re-letting the site as early as possible. Furthermore, the EPD also needs to explore ways and means for the EPD to repossess a leased site earlier in future if the related tenant fails to comply with significant tenancy requirements, such as the operation commencement date.

***Long delays in commencing operation
at Lots 9, 10 and 14 of Phase 2***

4.18 After completion of site construction works, Lots 7 to 16 under Phase 2 were available for leasing to tenants in three stages from October 2009 to July 2012 (see para. 4.4(c)). Audit noted that, as of August 2015, tenants of three land lots under Phase 2 had not commenced operations 29 months after the time specified in the tenancies (see Table 10).

Note 16: *Section 58 of the Ordinance states that a right of re-entry in a lease shall not be enforceable unless the lessor serves on the lessee a notice specifying the breach and the lessee fails to remedy the breach within a reasonable time.*

Table 10

**Delay in commencing operation of Phase 2 tenants
(August 2015)**

Tenant	Type of recycling materials	Date of commencing operation as specified in tenancy	Period of delay in commencing operation (up to August 2015)
Lot 9 (Tenant D)	Waste rubber tyres/ WEEE/oil	April 2013	29 months
Lot 10 (Tenant E)	Lead-acid batteries	April 2013	29 months
Lot 14 (Tenant F)	WEEE	April 2013	29 months

Source: EPD records

4.19 According to the EPD, as of August 2015:

- (a) plant construction works were being carried out at Lot 9. Tenant D of Lot 9 planned to commence operation by end of 2015;
- (b) planning and design of plant at Lot 10 was in progress. Tenant E of Lot 10 planned to commence operation by mid-2016; and
- (c) machinery testing was being conducted at Lot 14. Tenant F of Lot 14 planned to commence operation by end of 2015.

4.20 The EPD informed Audit in October 2015 that it had closely liaised with the Buildings Department to expedite the statutory approval processes for related building works as far as practicable, and provided advice and guidance to the tenants on the approval procedures. The EPD had also issued warning letters to the tenants concerned.

4.21 Audit considers that, with a view to ensuring that EcoPark tenants would commence operation according to the time specified in tenancies, the EPD needs to provide necessary assistance and explore ways and means to effectively enforce tenants' compliance with the operation-commencement requirement stated in EcoPark tenancies in future.

Some tenants being permitted to use vacant land lots free of charge

4.22 In order to support the implementation of PR scheme on WEEE, in March 2015, after conducting open tendering, the EPD awarded a design-build-and-operate contract at a sum of \$1,728 million to Contractor A for building a WEEE treatment facility at Lot 16 (occupying an area of 30,970 m²) and operating the facility for 10 years. Lot 15 (occupying an area of 5,000 m²) was originally intended for use by Contractor A as a works area during plant construction but the use was later not required.

4.23 From completion of site works of Lots 15 and 16 in July 2012 to awarding the design-build-and-operate contract for Lot 16 in March 2015 (2 years and 9 months), for the purpose of providing assistance to resolve the operation difficulties of EcoPark tenants, the EPD permitted five tenants (tenants of Lots 3, 8, 11, 13 and 14) to use areas in Lots 15 and 16 for storage purposes free of charge for periods ranging from three to six months for each period of permission. In this connection, the related tenants were required to sign an undertaking on not subletting the areas and indemnifying the EPD for any loss and damage incurred. Table 11 shows the areas under Lots 15 and 16 and the durations of occupation by the five existing tenants.

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Table 11

**Free use of Lots 15 and 16 areas by other tenants
(July 2012 to August 2015)**

Tenant of Lot	Vacant lot		Duration (days)
	Lot	Area (m ²)	
3 (Tenant B)	15	5,000	771
	15	2,500	201
14 (Tenant F)	15	2,500	201
8	16	10,000	716
11	16	5,000	92
	16	10,000	897
13	16	5,000	92
	16	10,970	585

Source: EPD records

Remarks: Part of Lot 16 (10,000 m²) was provided to the tenant of Lot 11 for use as a storage area free of charge from July 2012 to March 2015. The other areas of Lot 16 were provided for use by tenants of Lots 8 and 13 from February 2013 to March 2015. According to the EPD, it had notified Tenants B and F to vacate and return to the EPD the occupied areas in Lot 15 by the end of September 2015.

4.24 In September and October 2015, the EPD informed Audit that:

- (a) upon completion of construction works of Lots 15 and 16 in July 2012, these land lots were earmarked for the implementation of a waste management facility project (see para. 4.22). At that time, the EPD planned to commence the project in December 2013. Given the short period and in the absence of an established charging mechanism, the EPD had difficulties in putting the vacant land lots into beneficial use. If the EPD had not allowed the pertinent tenants to use Lots 15 and 16 as

temporary storage areas, the land lots would have been left vacant pending the development of the WEEE treatment facility and no rental revenue would have been generated;

- (b) the provision of temporary storage areas to existing tenants was one of the EPD's supporting measures to address the temporary commissioning and operational difficulties of existing tenants and achieve better site utilisation; and
- (c) without providing the storage space for use by the existing tenants, some of the recyclable materials might need to be disposed of at landfills and some tenants might not be able to conduct operation commissioning tests smoothly.

4.25 In May 2009, in relation to charging a nominal rent for letting Lots 7 and 8 to two NGOs (see Table 8 in para. 4.5), the Financial Services and the Treasury Bureau informed the EPD that:

- (a) the Government should not use public money to subsidise a commercial or profit-making business when it was commercially viable to run the business; and
- (b) the Government should not be seen to provide funding to enhance the profit of private businesses or compete with the private sector.

4.26 While vacant land lots should be put into gainful use, Audit considers that reasonable rental should be charged for temporary use of vacant land lots at EcoPark by profit-making organisations. Apart from the tenant of Lot 8 who is an NGO, the tenancies of Lots 3, 11, 13 and 14 were awarded to commercial operators after conducting open tendering. Under the tenancies of Lots 3, 11, 13 and 14, the tenants could operate their businesses within the areas (5,000 m² for Lot 3, 10,000 m² for Lot 11, 10,000 m² for Lot 13 and 5,000 m² for Lot 14) allocated at specific monthly rentals (\$53,250 for Lot 3, \$150,000 for Lot 11, \$180,000 for Lot 13 and \$80,000 for Lot 14). Given that the temporary use of additional areas was not made known in the open tendering, free allocation of the areas after the tendering is not satisfactory. In Audit's view, the EPD needs to take measures to prevent recurrence of similar anomalies in future.

Recycling of municipal solid waste

Significant reduction in short-term-tenancy sites for recycling industry

4.27 As of June 2015, the Lands Department had let out 33 short-term tenancies (STTs) of government sites for exclusive use by the recycling industry (see Table 12). The tenancy periods ranged from one month to 7 years. Most recycling operators made use of the STT sites for sorting, baling and temporary storage of collected recyclables.

Table 12

**STT sites for recycling use
(June 2015)**

Size of STT site (m²)	Number of sites	Total area (m²)	Total monthly rental
Below 1,000	18	5,775	\$373,478
1,000 to below 3,000	10	17,540	\$1,168,430
3,000 and above	5	23,790	\$1,287,238
Total	33	47,105	\$2,829,146

Source: EPD records

4.28 According to the EPD, of the 33 STT sites occupying a total area of 47,105 m² for recycling use, 18 sites occupying a total area of 15,967 m² (34%) would be taken back from 2015-16 onwards for land sale or other uses, with the remaining 15 sites occupying a total area of 31,138 m² (66%) continuing to be designated for use by the recycling industry.

4.29 Audit considers that, given the significant reduction in the number and size of STT sites for the recycling industry, and with a view to providing necessary support to the recycling industry, the EPD needs to, in collaboration with the Lands Department and the Planning Department, explore suitable land sites for letting to the recycling industry under STTs.

Audit recommendations

4.30 **Audit has *recommended* that the Secretary for the Environment and the Director of Environmental Protection should, in managing EcoPark tenancies:**

- (a) provide necessary assistance to related tenants and explore ways and means to effectively enforce tenants' compliance with related requirements stated in EcoPark tenancies with a view to minimising:
 - (i) actual recycling throughput being significantly lower than that specified in tenancies;**
 - (ii) prolonged suspension of recycling operation; and**
 - (iii) significant delays in commencing recycling operation;****
- (b) expedite necessary actions with a view to repossessing Lot 4 and re-letting the site as early as possible;**
- (c) explore ways and means to repossess a leased site earlier in future if the related tenant fails to comply with significant tenancy requirements;**
- (d) charge reasonable rental for temporary use of vacant land lots by profit-making organisations; and**
- (e) in collaboration with the Director of Lands and the Director of Planning, explore suitable land sites for letting to the recycling industry under STTs.**

Response from the Government

4.31 The Secretary for the Environment and the Director of Environmental Protection agree with the audit recommendations. They have said that the ENB and the EPD:

- (a) will continue to provide feasible assistance to tenants and step up lease enforcement actions to ensure that the tenants can commence operation as planned, meet their recycling throughput and operate without disruptions;
- (b) will continue to liaise with the Department of Justice with a view to repossessing Lot 4 and re-letting the site as early as possible;
- (c) will explore with the Department of Justice ways to expedite legal actions to repossess a leased site in the event the tenant concerned fails to comply with significant tenancy requirements;
- (d) will explore setting up a suitable charging scheme for temporary use of vacant land lots by commercial tenants in future; and
- (e) has been working with the government departments concerned to step up efforts in identifying suitable STT sites to address the needs of the recycling industry and will continue to do so.

4.32 The Secretary for Financial Services and the Treasury has said that, as regards the audit recommendation in paragraph 4.30(d), vacant lots should be awarded to commercial operators through open tendering, and the rental to be charged should reflect the open market rentals.

4.33 The Director of Planning agrees with the audit recommendation in paragraph 4.30(e). He has said that the Planning Department will work with the government departments concerned to search for suitable temporary sites for letting to the recycling industry under STTs.

PART 5: TREATMENT AND DISPOSAL OF MUNICIPAL SOLID WASTE

5.1 This PART examines actions taken by the ENB and the EPD in reducing the quantity of MSW disposal.

MSW-disposal targets

5.2 In Hong Kong, MSW generated would either be recovered (mainly for export) or disposed of at landfills. The 2005 Policy Framework set the following target on reduction of the quantity of MSW disposed of at landfills:

Reducing the percentage of MSW disposed of at landfills from 60% in 2004 to 25% in 2014, with the remaining 50% of MSW being recovered and 25% being treated by an integrated waste management facility (IWMAF).

5.3 Furthermore, the 2013 Blueprint set the following target:

Reducing the per-capita-per-day MSW disposal from 1.27 kg in 2011 to 1 kg or less by 2017, and further to 0.8 kg or less by 2022.

Means of treating and disposing of MSW

5.4 According to the 2005 Policy Framework:

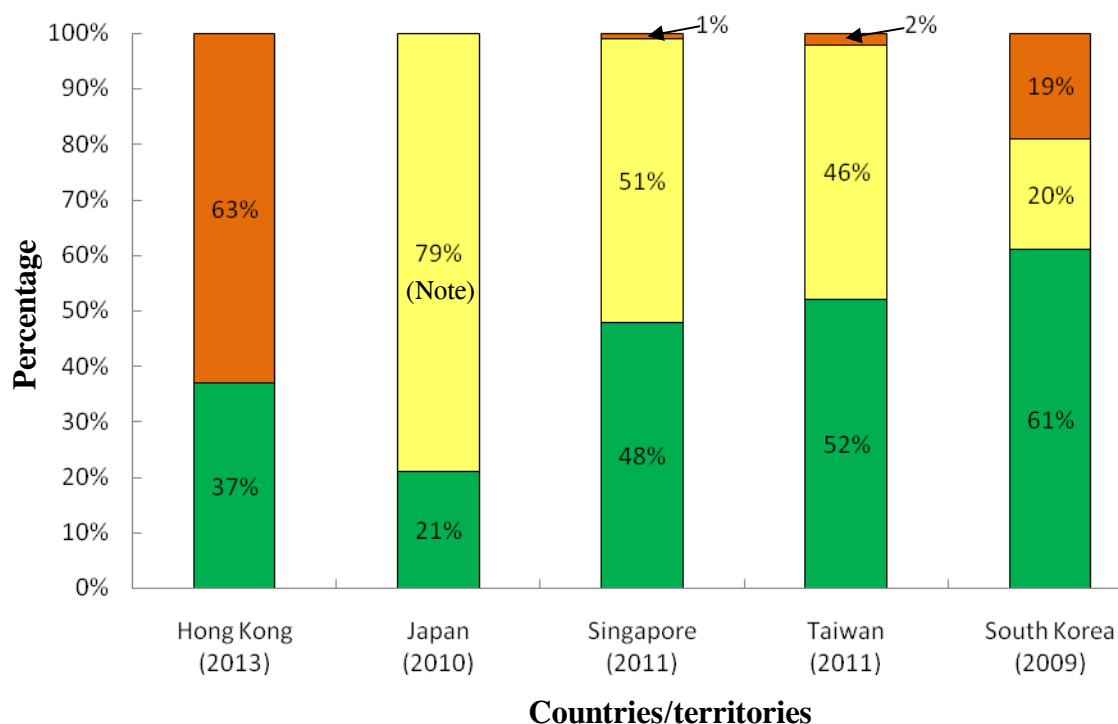
- (a) solely relying on landfills for waste disposal was not sustainable for Hong Kong; and
- (b) the existing landfills were running out of capacity, and the Government faced increasing difficulty in identifying suitable sites for new landfills. The landfill capacity should be conserved only for the disposal of unavoidable and treatment waste.

Treatment and disposal of municipal solid waste

5.5 At present, Hong Kong relies on landfills and waste recovery for disposal of MSW. However, some Asian countries/territories have adopted incineration as a third way for disposing of MSW (see Figure 11).

Figure 11

Waste disposal arrangements of some Asian countries/territories



Legend:
■ Landfill
■ Incineration
■ Recycling

Source: EPD records

Note: This quantity included residue of incineration disposed of at landfills.

Development of waste treatment and disposal facilities

5.6 As laid down in the 2013 Blueprint, an IWMTF, a sludge treatment facility and two organic waste treatment facilities (OWTFs) would be installed from 2013 to 2022 (see Table 13).

Treatment and disposal of municipal solid waste

Table 13

**Installation of waste treatment and disposal facilities
(August 2015)**

Facility	Forecast annual treatment quantity (tonnes)	Approved project estimate (APE) (Date of FC approval)	Target completion date stated in 2013 Blueprint	Position as of August 2015
Sludge treatment facility	730,000	Original APE: \$5,154.4 million (June 2009) Revised APE: \$5,364.3 million (June 2015)	2013-15	<ul style="list-style-type: none"> - Contract awarded in September 2010 - Stage 1 of the facility commissioned in April 2015 with an annual capacity of 584,000 tonnes - Whole facility targeted for completion in June 2017
OWTF - Phase 1	73,000	\$1,589.2 million (October 2014)	2016-18	<ul style="list-style-type: none"> - Contract awarded in December 2014 - Target for completion in mid-2017
- Phase 2	109,500	Funding not yet sought	2016-18	<ul style="list-style-type: none"> - Tender preparation started in second quarter of 2014
IWMF - Phase 1	1,095,000	\$19,203.7 million (January 2015)	2019-22	<ul style="list-style-type: none"> - Judicial review in progress - Target for completion in 2023
Other waste treatment facilities (including waste-to-energy facilities)	Under study	Funding not yet sought	No target set	<ul style="list-style-type: none"> - Carrying out site searches and researches on the most appropriate technology
Total	2,007,500	\$26,157.2 million		

Source: EPD records

Treatment and disposal of municipal solid waste

5.7 In 2013, 299,538 tonnes of dewatered sewage sludge generated from the sewage treatment plants of the Drainage Services Department were disposed of at landfills. After commissioning of the sludge treatment facility located in Tuen Mun in April 2015, dewatered sewage sludge has been treated by incineration at the facility, with residuals being disposed of at landfills.

5.8 An OWTF is designed for recycling and treating food waste using biological treatment technologies, which would produce biogas (a source of renewable energy similar to natural gas) as well as a residue that can be processed for use as compost or fertilizer. Details of OWTF Phases 1 and 2 are elaborated in Chapter 2 of the Director of Audit's Report No. 65.

Implementation of the IWMF

5.9 In 1998, the EPD announced a plan to commission a waste-to-energy facility (later renamed IWMF) by 2006. The 2005 Policy Framework set a target of commissioning a waste-to-energy plant by mid-2010s. The 2013 Blueprint revised the commissioning time to "2019 to 2022". In January 2015, the FC approved funding of \$19,203.7 million for the development of IWMF Phase 1 on an artificial island near Shek Kwu Chau, south of Lantau Island. As stated in the funding paper, the annual recurrent expenditure of IWMF Phase 1 would be \$402 million and the plant would be commissioned in 2022-23. The facility would adopt advanced incineration technologies for disposing of MSW which would generate electricity for gainful use. The residual of treatment (about 10% in volume of the MSW) would be disposed of at landfills.

5.10 In 2012, a member of the public filed an application for judicial review of the EPD's approval of the environmental impact assessment report for development of IWMF Phase 1. After being dismissed by the Court of Appeal, the applicant appealed to the Court of Final Appeal and an appeal hearing was scheduled for November 2015. A chronology of key events of the issue is shown in Appendix B.

Areas for improvement

Target for reducing MSW disposal at landfills not met

5.11 The 2005 Policy Framework set a target of reducing the percentage of MSW disposed of at landfills from 60% in 2004 to 25% in 2014, with the remaining 50% of MSW being recovered and 25% being treated by an IWMP. Owing to the postponement in commissioning the IWMP from mid-2010s to 2023 (see paras. 5.6 and 5.9), MSW which was originally targeted for treatment by the IWMP would have to be disposed of at landfills during the period of postponement. Therefore, in 2014, 50% of MSW was expected to be disposed of at landfills and the remaining 50% to be recovered (mainly for export outside Hong Kong).

5.12 As shown in Figure 8 in paragraph 3.8, the published MSW-recovery rate had decreased from 52% in 2010 to 37% in 2013. As elaborated in PART 2, due to inclusion of import recyclables in the estimation, the 5.49 million tonnes of MSW generation and the 2.01 million tonnes of MSW recovery in 2013 had been over-estimated, and hence the MSW-recovery rate of 37% had also been over-estimated. Accordingly, in 2013, more than 63% (100% less 37%) of locally-generated MSW should have been disposed of at landfills. The Government's target stated in the 2005 Policy Framework of disposing of 50% of MSW either at landfills or treated by the IWMP was not achieved.

Rising MSW disposal at landfills in recent years

5.13 The 2013 Blueprint set a target of reducing the quantity of per-capita-per-day MSW disposal from 1.27 kg in 2011 to 1 kg or less by 2017, and further to 0.8 kg or less by 2022.

5.14 Audit noted that the total quantities and per-capita-per-day quantities of MSW disposed of at landfills had increased in recent years (see Table 14).

Treatment and disposal of municipal solid waste

Table 14

**MSW disposal at landfills
(2005 to 2014)**

Year	Total quantity (million tonnes)	Per-capita-per-day quantity (kg/person/day)
2005	3.42	1.38
2006	3.39	1.35
2007	3.35	1.33
2008	3.30	1.30
2009	3.27	1.29
2010	3.33	1.30
2011	3.28	1.27
2012	3.40	1.30
2013	3.48	1.33
2014	3.57	1.35

Source: EPD records

5.15 Notwithstanding the various actions taken by the EPD in recent years with a view to reducing MSW generation and increasing MSW recovery, the rising trend in both the total quantities and per-capita quantities of MSW disposed of at landfills from 2011 to 2014 is a cause for concern. In Audit's view, for the purpose of reducing MSW disposal at landfills, the EPD needs to strengthen efforts with a view to reducing MSW generation and increasing MSW recovery.

LegCo not provided with quantifiable information relating to serviceable lives of landfills

5.16 In March 2012, the EPD informed the EA Panel that, as of end 2011, the three landfills had used up 79 million cubic metres (m³) of the total capacity of 139 million m³, and that they would reach their capacity commencing from 2014 to 2018, based on the following considerations:

- (a) since landfills were the last resort for waste disposal, prudent and realistic planning assumptions had been adopted; and
- (b) such assumptions included a moderate growth in waste due to population growth, increases in economic activities and major development projects, having regard to historical trends and economic forecasts.

5.17 In May 2013, the EPD informed the EA Panel that, in estimating the serviceable lives of the three landfills, it was assumed that the quantities of construction waste being disposed of at landfills would remain constant. In December 2014, the FC approved funding of \$2,101.6 million and \$7,510 million for extension works for SENT Landfill and NENT Landfill respectively, and \$38 million for carrying out the detailed study, site investigation and tender preparation work for WENT Landfill extension works. In seeking funding approval for extending the three landfills, the EPD informed the FC that the three landfills were estimated to reach their capacity from 2015 to 2018-19, and the proposed works would extend the estimated serviceable lives of WENT Landfill by 15 years from 2018-19, SENT Landfill by 6 years from 2017 and NENT Landfill by 10 years from 2018. Table 15 shows the capacities of the three landfills and their estimated serviceable lives at different times.

Treatment and disposal of municipal solid waste

Table 15

Capacities and estimated serviceable lives of three landfills

Landfill	Year of commissioning	Design capacity		Estimated time of landfill reaching capacity		
		Original (million m ³)	After approved and proposed extension works (million m ³)	As of March 2012	As of December 2014	
					Before extension works	After approved and proposed extension works
WENT (Note 1)	1993	61	142	2018	2018-19	2033-34 (Note 2)
SENT	1994	43	49.5	2014	2015	2023
NENT	1995	35	54	2016	2016-17	2028
Total		139	245.5			

Source: Audit analysis of EPD records

Note 1: As of August 2015, the FC had approved \$38 million for carrying out the detailed study, site investigation and tender preparation work for WENT landfill extension works. The Government had not sought FC funding approval for the construction works.

Note 2: According to the EPD, the estimated time of extended WENT Landfill reaching its capacity is subject to the findings of the detailed study and the timeframe of securing funding for the extension works.

5.18 In January 2011, the EPD informed the public that 5 ha of land located at the Clear Water Bay Country Park originally included in SENT Landfill extension works would be excluded from the works, and the proposed SENT Landfill extension area would only receive construction waste. The EPD later announced that, with effect from January 2016, the SENT Landfill would only receive construction waste. In April 2015, the EPD commenced the pre-qualification process for the NENT Landfill extension project. In May 2015, the EPD awarded a design and construction consultancy for SENT Landfill extension works.

Treatment and disposal of municipal solid waste

5.19 From 1993 to 2011, the three landfills received waste with a total weight of 98.3 million tonnes, which had used up 79 million m³ of the total capacity of 139 million m³ of the three landfills. Accordingly, the weight-to-volume ratio during the period was 1.24 tonnes of waste : 1 m³ of landfill space (98.3 million tonnes ÷ 79 million m³), compared to the EPD's estimated ratio of 1 tonne : 1 m³ (Note 17). With the total remaining capacity of the three landfills of 60 million m³ as of end 2011, they would be able to receive 60 million tonnes (based on the EPD's estimated ratio of 1 tonne : 1 m³) to 74 million tonnes (based on the historical ratio of 1.24 tonnes : 1 m³) of waste in future. In the event that a constant annual quantity of 5.22 million tonnes of waste (see Figure 2 in para. 1.3) is disposed of at the three landfills in the forthcoming years, the remaining serviceable lives of the three landfills could last for some years after 2018, contrary to the EPD's estimates made in 2012 that the three landfills would reach their capacities from 2014 to 2018. In September 2015, in response to Audit's above-mentioned observations, the EPD informed Audit that the estimated time of the three landfills reaching their capacity of 2014 to 2018 (as of March 2012 — see Table 15 in para. 5.17) were based on the following assumptions:

- (a) an area of 15 ha in WENT Landfill had to be reserved for providing freshwater ponds as required under the environmental permit for the WENT Landfill extension project, resulting in a loss in the landfill capacity of about 8 million m³;
- (b) enhanced daily soil cover, liner and drainage layers, leachate and landfill gas-collection-pipeline networks were required to be implemented at the landfills to address the nearby community's concerns, resulting in a loss in the landfill capacity of about 6 million m³;
- (c) by end 2011, the remaining usable capacity of the three landfills had been reduced to 46 (60 less 8 less 6) million m³, which would be able to receive 46 million tonnes of waste in future (i.e. at a weight-to-volume ratio of 1 tonne of waste : 1 m³ of landfill space); and

Note 17: *According to the EPD: (a) it had adopted a conservative weight-to-volume ratio of 1 tonne : 1 m³ in estimating the remaining serviceable lives of the three landfills (see para. 5.16); and (b) the ratio of 1.24 tonnes : 1 m³ according to waste disposal in the past years was due to a higher proportion of construction waste being disposed of at landfills before 2006. Since 2006, with the implementation of the Construction Waste Disposal Charging Scheme, the quantity of inert construction waste disposed of at landfills had decreased.*

Treatment and disposal of municipal solid waste

- (d) instead of using a constant disposal quantity, the EPD assumed that there would be a 2.5% annual growth of MSW, a 10% annual growth of construction waste and a 5% annual growth of special waste disposed of at the landfills.

5.20 Audit noted that, in informing the EA Panel in March 2012 of the remaining serviceable lives of the three landfills, the EPD did not provide quantifiable information on the basis of estimation and the underlying assumptions as outlined in paragraph 5.19. Audit considers that, in seeking funding approval for landfill extension works in future, the EPD needs to provide LegCo with quantifiable information and the assumptions made in estimating the remaining serviceable lives of landfills.

Audit recommendations

5.21 **Audit has recommended that the Secretary for the Environment and the Director of Environmental Protection should:**

- (a) **strengthen efforts with a view to reducing MSW generation and increasing MSW recovery; and**
- (b) **in seeking funding approval for landfill extension works in future, provide LegCo with quantifiable information and the underlying assumptions in estimating the remaining serviceable lives of landfills.**

Response from the Government

5.22 The Secretary for the Environment and the Director of Environmental Protection agree with the audit recommendations. They have said that the ENB and the EPD will:

- (a) continue to vigorously pursue the various MSW reduction and recycling measures set out in the 2013 Blueprint; and
- (b) endeavour to provide LegCo with quantifiable information, including the underlying assumptions, for estimating the remaining serviceable lives of landfills, in funding applications for landfill extension works in future.

PART 6: WAY FORWARD

6.1 This PART outlines the major audit observations and examines the way forward.

Achievement of MSW targets

6.2 The 2005 Policy Framework set a target of achieving an MSW-recovery rate of 50% by 2014 (see para. 3.4(b)) and the 2013 Blueprint stated that about 55% of MSW would be recycled by 2022 (see para. 3.6). This audit reveals that, owing to the fact that both locally-generated and import recyclables processed for export were classified as “domestic export” in trade declarations, the quantities of locally-generated MSW and recovered MSW had been over-estimated. As a result, the MSW-recovery rates had also been over-estimated. As the targets for MSW generation and MSW-recovery rates had been based on historical statistics, the targets had also been overstated. Had the correct statistics been used, more realistic MSW-recovery-rate targets would have been set, and recovery rates better reflecting the local recycling situation would have been compiled and published. Audit has recommended that the EPD should take remedial measures to prevent recurrence of similar anomalies in future.

MSW disposal at landfills

6.3 This audit also reveals that, notwithstanding the various actions taken by the EPD in recent years with a view to reducing MSW disposal at landfills, the rising trend in both the total quantity (from 3.28 million tonnes in 2011 to 3.57 million tonnes in 2014, or a 8.8% increase) and per-capita-per-day quantity of MSW (from 1.27 kg in 2011 to 1.35 kg in 2014, or a 6.3% increase) disposed of at landfills is a cause for concern. Audit has recommended that the EPD should make improvements in these areas.

Way forward

Implementation of major measures for MSW reduction and recovery

6.4 In comparison with the time targets set in the 2005 Policy Framework, there were delays in implementing the MSW charging scheme and the PR schemes on WEEE, glass beverage bottles, vehicle tyres, packaging materials and rechargeable batteries. Audit has recommended that the EPD should expedite actions on implementing the MSW charging scheme and the various PR schemes.

6.5 Regarding implementation of the PSB Phase 1 and the SS Programme, Audit examination reveals that there is room for improvement in assessing the effectiveness of the two programmes. Audit has recommended that the EPD should make improvement in implementing similar programmes in future.

6.6 In relation to the management of EcoPark, Audit examination reveals that the tenants of some land lots had not complied with the tenancy requirements on time of commencing operation and meeting the minimum quantities of recycling throughput. Audit has recommended that the EPD should make improvements in these areas.

Way forward

6.7 In 2013, Hong Kong's population of 7.19 million and the recyclable import/export industries together generated 5.49 million tonnes of MSW, of which 3.48 million tonnes (63%) were disposed of at landfills and the remaining 2.01 million tonnes (37%) were recovered and mainly exported outside Hong Kong for recycling. In terms of weight, the quantity of MSW disposed of at landfills every day is equivalent to that of about 650 double-decker buses. As of March 2014, the capital costs of providing the three landfills and the refuse-transfer-station network were \$4,129 million and \$2,724 million respectively. The estimated recurrent cost of disposing of a tonne of MSW at landfills was \$520. For recovery of MSW, as of March 2014, the Government had spent \$308 million to develop EcoPark to provide land at low cost to assist the recycling industry. Among the various government departments (such as the FEHD, the LCSD, the Housing Department and the AFCD) involved in the SS Programme, in 2013, the FEHD incurred \$6.35 million for collecting 711 tonnes of recyclables from WS bins (or on average spending \$8,931 for collecting a tonne of recyclables) for delivery to approved recyclers.

6.8 The Government has made substantial efforts and incurred significant expenditures in collecting and disposing of large quantities of MSW generated by Hong Kong's population. Apart from the high cost of MSW disposal, the large quantity of MSW generation has given rise to a significant problem in Hong Kong, namely Hong Kong's limited landfill space will be progressively used up in the coming two decades. According to the EPD, recently approved extension works to SENT and NENT Landfills and proposed extension works to WENT Landfill (subject to FC funding approval) would extend the serviceable lives of the three landfills to 2023, 2028 and 2033-34 respectively. In other words, SENT, NENT and WENT Landfills would reach their capacity in 8, 13 and 19 years from present respectively.

6.9 Owing to the scarcity of land, further extension of the three landfills or finding a place for developing a new landfill will be very difficult if not impossible. It is important to note that, after completing the approved and proposed extension works, the three landfill sites would occupy a total area of 554 ha of land (Note 18), which is approximately the size of 550 standard football pitches. According to the EPD, the existing landfill capacity should be conserved only for the disposal of unavoidable and treatment waste (see para. 5.4(b)). In Audit's view, both the Government and the community need to make utmost efforts on minimising MSW disposal at landfills, which will help preserve the precious landfill space for use by this generation and future generations.

6.10 For the purpose of minimising MSW disposal at landfills, Audit considers that the EPD needs to strengthen efforts to clearly publicise the significant landfill problem with a view to gaining public consensus and support on the vital need for Hong Kong to implement a holistic strategy on MSW handling focusing on the three key areas of reduction in MSW generation, increase in MSW recovery and increase in MSW treatment by IWMMF.

Note 18: *After completion of approved and proposed extension works, SENT, NENT and WENT Landfills would respectively occupy areas of 113 ha, 131 ha and 310 ha.*

Way forward

Reduction in MSW generation

6.11 As evidenced by overseas experience, the proposed MSW charging scheme would lead to changes in people's MSW disposal behaviour and a significant reduction in MSW generation.

Increase in MSW recovery

6.12 In a free market, recyclables with relatively high market values, such as waste metals, would normally be recovered by commercial recyclers for gainful use without the need for government assistance or subsidy. However, commercial recyclers may not have incentives to recover low-value recyclables, such as food waste and waste plastics. Therefore, the EPD needs to closely monitor the market prices of and demand for related recyclables and consider providing appropriate assistance to support the sustainable recovery and recycling of such recyclables (see para. 3.18), bearing in mind the high cost of MSW disposal at landfills and the vital need for preserving the precious landfill space.

Increase in MSW treatment by IWWMF

6.13 Asian countries/territories similar to Hong Kong in terms of economic development, such as Japan, Singapore, Taiwan and South Korea, have adopted incineration and recycling as the main means for MSW treatment. Notwithstanding that Hong Kong faces an acute shortage of land for landfill purposes, it has heavily relied on landfills for MSW disposal. Despite the fact that a proposal for providing a waste-to-energy facility for MSW was made as early as 1998, such a facility (with a capacity of treating 1.1 million tonnes of MSW a year) would only be provided in 2023 (according to the EPD's latest plan). Whilst Audit notes that the long time taken in providing the facility is due to the need to obtain public consensus on related issues, the long lapse of time has led to the limited landfill space having been dwindled by the disposal of large quantities of MSW, some of which could have been disposed of by the waste-to-energy facility if it had been installed earlier.

6.14 Audit also notes that the 1.1 million tonnes of MSW to be treated annually by IWWMF Phase 1 when it commences operation in 2022-23 would only account for 32% of the total quantity of 3.48 million tonnes of MSW being disposed of at landfills in 2013. Therefore, the EPD needs to explore ways and means to increase the quantity of MSW treatment instead of disposing of it at landfills.

Audit recommendations

6.15 **Audit has *recommended* that the Secretary for the Environment and the Director of Environmental Protection should:**

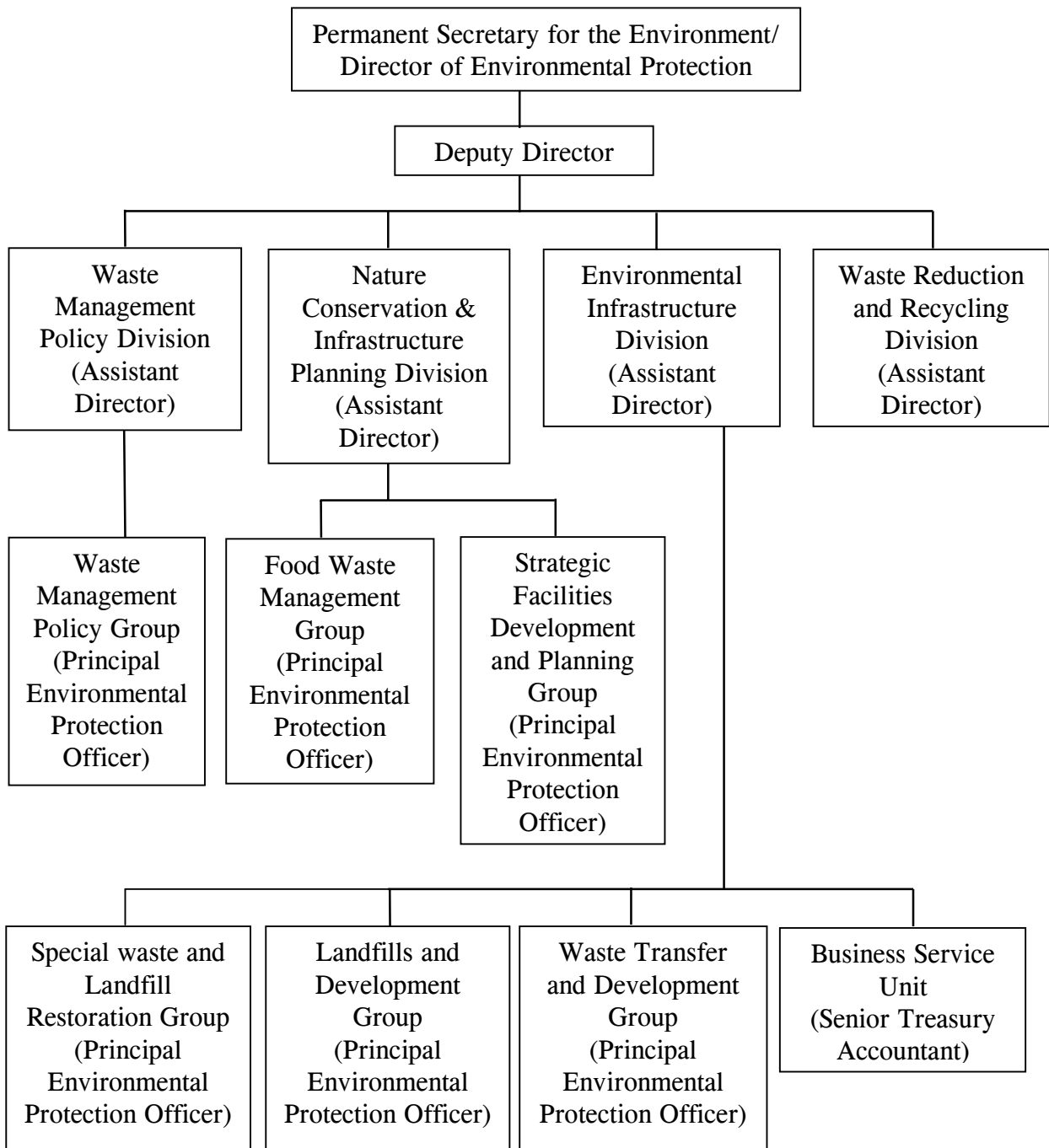
- (a) **strengthen efforts to clearly publicise the significant landfill problem with a view to gaining public consensus and support on the vital need for Hong Kong to implement a holistic strategy on handling MSW, focusing on reduction in MSW generation, increase in MSW recovery and increase in MSW treatment by IWMMF; and**
- (b) **explore ways and means to increase the quantity of MSW treatment instead of disposing of large quantities of MSW at landfills.**

Response from the Government

6.16 The Secretary for the Environment and the Director of Environmental Protection agree with the audit recommendations. They have said that the ENB and the EPD will continue to:

- (a) clearly publicise the waste disposal problems and challenges faced by Hong Kong with a view to gaining public support of the holistic strategy on waste management as set out in the 2013 Blueprint; and
- (b) explore ways to encourage the community to enhance waste prevention, reuse, recycling and recovery, instead of disposing of waste at landfills.

**Environmental Protection Department:
Organisation chart (extract)
(30 June 2015)**



Source: EPD records

**Chronology of key events of the IWMF development
(1998 to 2015)**

Year	Event
1998	The EPD planned to commission a waste-to-energy facility (renamed IWMF since 2005) in 2006.
1999	The Chief Executive of the Hong Kong Special Administrative Region announced the Government's plan to consult the community on building the waste-to-energy facility.
2000	The EPD carried out an 18-month feasibility study for the waste-to-energy facility and revised its plan to commission the facility in 2007.
2001	Representatives of the Advisory Council on the Environment and the Government conducted study visits to waste-treatment facilities in the United Kingdom, Norway, France and Netherlands.
2002	The Advisory Group on Waste Management Facilities (WMF Advisory Group – Note) was formed to advise the Government on the selection of waste treatment technologies. The EPD planned to commence consultation in 2003 and commission the facility in 2012.
2003	The EPD carried out another study for the facility.
2004	The WMF Advisory Group members visited waste-treatment facilities in Japan and Korea. The Council for Sustainable Development carried out stakeholder's engagement processes with a view to formulating an initial sustainable development strategy for the waste-to-energy facility.
2005	The WMF Advisory Group recommended adopting the multi-technology approach (incineration as the core treatment technology) for the IWMF. The Council for Sustainable Development reported the results of the IWMF public engagement process. The EPD planned to commission the IWMF in mid-2010s.
2006	The Advisory Council on the Environment held an open forum to discuss and exchange views with stakeholders and the public. The Advisory Council on the Environment members, LegCo Members and some government officials visited some waste treatment facilities in the Netherlands, Germany, Japan, Demark and Finland. The EPD commenced a site search for the IWMF.

Note: *The Advisory Group was chaired by the former Permanent Secretary for the Environment, Transport and Works (Environment) and comprised non-official members from professional bodies, academics, green groups and business sectors.*

Appendix B
(Cont'd)
(para. 5.10 refers)

Year	Event
2007	The EPD planned to commission the IWMF by around late 2016 or early 2017.
2008	The capacity of IWMF Phase 1 was proposed to be 1,095,000 tonnes a year. After site search studies, two sites at Shek Kwu Chau and Tuen Mun Tsang Tsui Ash Lagoons were identified as the potential sites for developing IWMF Phase 1. The EPD commissioned a consultant to carry out the engineering investigation and environmental studies for the two potential sites for IWMF Phase 1.
2009	The Advisory Council on the Environment endorsed the technology adopted (incineration as the core technology). EPD staff and members of the Tuen Mun and Islands District Councils conducted a study visit to Tokyo and Osaka to study the use of the advanced incineration technology for waste and sludge treatment in Japan.
2010	The Chief Executive of the Hong Kong Special Administrative Region visited some advanced waste-treatment facilities in Tokyo.
2011	The engineering investigation and environmental studies for the two potential sites for IWMF Phase 1 were completed. The Government identified a preferred option to develop an artificial island near Shek Kwu Chau for building IWMF Phase 1. The EPD planned to commission the IWMF before or by 2018. The EPD informed the Islands District Council of and gazetted the amended zoning plans.
2012	The Director of Environmental Protection approved the environmental impact assessment report and issued an environmental permit for the IWMF project. A judicial review application relating to the environmental impact assessment report was filed at the court.
2013	The court dismissed the judicial review application. The applicant filed a Notice of Appeal against the judgement. Islands District Council members conducted two visits to the refuse incineration plant in Macao.
2014	Some LegCo Members and government officials visited incinerators in Europe. The Court of Appeal dismissed the judicial review appeal. The applicant applied leave to appeal against the judgement.
2015	The FC approved funding of \$19,203.7 million for implementing the IWMF project, with target commissioning in 2022-23. The Court of Final Appeal granted leave for the judicial review appeal. The appeal hearing was scheduled for November 2015.

Source: EPD records

Acronyms and abbreviations

AFCD	Agriculture, Fisheries and Conservation Department
APE	Approved project estimate
Audit	Audit Commission
C&ED	Customs and Excise Department
C&I	Commercial and industrial
C&SD	Census and Statistics Department
EA Panel	Panel on Environmental Affairs
ENB	Environment Bureau
EPD	Environmental Protection Department
FC	Finance Committee
FEHD	Food and Environmental Hygiene Department
ha	hectare
IWMF	Integrated waste management facility
kg	kilogram
LCSD	Leisure and Cultural Services Department
LegCo	Legislative Council
m ²	square metre
m ³	cubic metre
MSW	Municipal solid waste
NENT	Northeast New Territories
NGO	Non-governmental organisation
OWTF	Organic waste treatment facility
PAC	Public Accounts Committee
PR scheme	Producer responsibility scheme
PSB	Plastic shopping bag
SENT	Southeast New Territories
SS Programme	Source-separation Programme
STT	Short-term tenancy
WEEE	Waste electrical and electronic equipment
WENT	West New Territories
WMF Advisory Group	Advisory Group on Waste Management Facilities
WS bin	Waste-separation bin

CHAPTER 2

Environment Bureau Environmental Protection Department

Reduction and recycling of food waste

**Audit Commission
Hong Kong
27 October 2015**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 65 of the Director of Audit contains 10 Chapters which are available on our website at <http://www.aud.gov.hk>

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REDUCTION AND RECYCLING OF FOOD WASTE

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REDUCTION AND RECYCLING OF FOOD WASTE

Executive Summary

1. In 2013, Hong Kong generated 1.36 million tonnes of food waste, of which 1.33 million tonnes (98%) were disposed of at landfills, accounting for 38% of the 3.48 million tonnes of municipal solid waste (MSW) being disposed of at the three landfills in Hong Kong. The remaining 0.03 million tonnes (2%) were recycled mainly as fertiliser. In terms of weight, the quantity of the food waste disposed of at landfills every day was equivalent to that of about 250 double-decker buses.

2. As the executive arm of the Environment Bureau (ENB), the Environmental Protection Department (EPD) is responsible for implementing waste management policies and strategies. In December 2005, the EPD published the “Policy Framework for the Management of Municipal Solid Waste (2005-2014)” (the 2005 Policy Framework), which set out strategies, targets and action plans on avoidance and minimisation; reuse, recovery and recycling; and bulk reduction and disposal of MSW which included food waste and yard waste. In May 2013, the ENB published the “Hong Kong Blueprint for Sustainable Use of Resources (2013-2022)” (the 2013 Blueprint) which set out targets to reduce the per-capita-per-day MSW disposal quantities. In February 2014, the ENB published “A Food Waste and Yard Waste Plan for Hong Kong (2014-2022)” (the 2014 Food Waste Plan) which set out a target to reduce food-waste disposal at landfills by 40% by 2022, using 2011 as the base year. In 2014-15, the estimated recurrent expenditure of the EPD’s waste (including food waste) management programme was \$2,049 million. The estimated operation cost (including collection and transfer cost) of disposing of a tonne of MSW (including food waste) was \$520. The Audit Commission (Audit) has recently conducted a review to examine the reduction and recycling of food waste by the Government with a view to identifying areas for improvement.

Executive Summary

Reduction in food waste

3. *Timely actions not taken to address the food-waste disposal problem.*

Food-waste disposal at landfills had increased from 3,227 tonnes per day (tpd) in 2004 to 3,648 tpd in 2013, representing a 13% increase. The disposal of large quantities of food waste at landfills in the past years had dwindled the limited and precious landfill space, and generated landfill gas and leachate that exacerbated environmental problems. Notwithstanding that the ENB set a target in the 2005 Policy Framework of reducing the quantity of MSW generation by 1% per annum up to 2014, using 2003 as the base year, the Government had taken piecemeal actions in the past years to find alternative ways for disposing of food waste. In 2014, the ENB promulgated measures and set a specific target of reducing food-waste disposal at landfills by 40% by 2022 (paras. 1.13, 2.6(a), 2.11, 2.12, 2.14 and 4.5).

4. *Many government departments invited but not signing the Food Wise Charter (FW Charter).*

In 2011, about 3,600 tpd of food waste were disposed of at landfills. In order to achieve a 40% reduction in food-waste disposal at landfills by 2022 (using 2011 as the base year), the 2014 Food Waste Plan promulgated two major food-waste-reduction measures comprising the introduction of an MSW charging scheme and the Food Wise Hong Kong Campaign (FW Campaign) which were projected to achieve 324 tpd and 360 tpd of food-waste reductions respectively. In May 2013, for the purposes of encouraging public participation in and soliciting public support for food-waste reduction programmes, the EPD introduced the FW Charter under the FW Campaign. Signees of the FW Charter pledged to implement food-waste reduction measures specified by the EPD. In addition to private businesses and organisations, from May to October 2013, the EPD had invited 12 government departments to sign the FW Charter. However, up to June 2015, only four of the 12 government departments had signed the FW Charter, at variance with the FW Campaign objective on coordinating efforts within the Government and public institutions to lead by example in food-waste reduction. After commencement of this review in May 2015, six of the remaining eight government departments had signed the FW Charter from July to October 2015 (paras. 2.2, 2.17(b), 2.19, 2.20, 2.22 and 2.38(b)).

Executive Summary

5. ***Some Correctional Services Department (CSD) institutions and Hospital Authority (HA) hospitals generating relatively high quantities of food waste.***

According to surveys conducted by the CSD and the HA in response to Audit's requests, the per-person-in-custody food-waste quantities of the 29 CSD institutions in August 2015 ranged from 0.02 kilogram (kg) to 1.61 kg per day, with an average of 0.11 kg per day, and the per-in-patient food-waste quantities of the 38 HA hospitals in July/August 2015 ranged from 0.06 kg to 0.58 kg per day, with an average of 0.31 kg per day. These variances of food-waste quantities show that some CSD institutions and HA hospitals might have adopted good food-waste-reduction practices thereby achieving low food-waste generation, whereas there is room for improvement for some other CSD institutions and HA hospitals to reduce food-waste generation (paras. 2.45 to 2.48).

6. ***Some schools not adopting green lunch practice.***

The EPD estimated that, in 2010, some 550,000 whole-day school students took lunch at school and they generated 100 tonnes of food waste and discarded 250,000 disposable lunch boxes every day which were disposed of at landfills. According to the ENB, students taking lunch through the on-site meal portioning arrangement would help reduce food waste by up to 50% because, under this arrangement, students would be conscious in making food choices and in reducing food wastage. However, according to the EPD's latest survey conducted in 2010, only 12% of students taking lunch at school took lunch through the on-site meal portioning arrangement. The survey also found 46% of students taking lunch at school used disposable containers (which would be disposed of at landfills after use) (paras. 2.53, 2.60, 2.62, 2.63, 2.66 and 2.67).

7. ***Some new schools not adopting on-site meal portioning.***

As stated in the 2009-10 Policy Address, the standard design of new schools would cater for on-site meal portioning. However, Audit noted that, up to June 2015, four of the six new schools with construction works completed from July 2011 to October 2012 which had been installed with related facilities had not adopted the on-site meal portioning arrangement (paras. 2.81 and 2.83).

Recycling of food waste

8. The 2014 Food Waste Plan promulgated four measures for increasing food-waste recycling, comprising the provision of a private food-waste recycling facility at EcoPark in Tuen Mun by end 2015, Organic Waste Treatment Facility (OWTF) Phase 1 in North Lantau by mid-2016, OWTF Phase 2 in Sheung Shui by end 2018 and OWTF Phase 3 in Yuen Long by early 2021. Compared to the 3,600 tpd of food waste being disposed of at landfills in 2011, the EPD estimated that the EcoPark facility would treat 100 tpd of food waste, and OWTF Phases 1, 2 and 3 would treat 200 tpd, 300 tpd and 300 tpd of food waste respectively. Food-waste recycling at the EcoPark facility commenced operation in May 2015 (paras. 1.13(c), 3.2 and 3.16).

9. *Actual treatment quantity of a pilot plant significantly lower than that reported.* In August 2008, a pilot composting plant for food-waste treatment at Kowloon Bay (Pilot Plant) was completed at a cost of \$16.2 million. The objectives of the Pilot Plant were to gather useful information and local experience on collection and treatment of food waste, and to evaluate the quality and market potential of compost products generated by the Plant. In April 2009 and March 2010, the EPD informed the Panel on Environmental Affairs (EA Panel) of the Legislative Council (LegCo) that the Pilot Plant would be capable of receiving up to 4 tpd of source-separated food waste from commercial and industrial (C&I) premises. However, Audit examination revealed that, from August 2008 to June 2015, the average quantity of food waste treated at the Pilot Plant was only 0.89 tpd, representing only 22% of the 4-tpd capacity reported to the EA Panel in 2009 and 2010 (paras. 3.6, 3.7 and 3.9).

10. Furthermore, in September 2015, the EPD informed Audit that the treatment capacity of the Pilot Plant should be 1.37 tpd instead of 4 tpd of food waste. However, Audit noted that, in the first half of 2015, the average quantity of food waste treated at the Pilot Plant was only 0.65 tpd, representing only 47% of the updated treatment capacity of 1.37 tpd of the Plant (para. 3.12).

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11. ***Significant under-estimation of project cost of OWTF Phase 1 in 2010.***

As stated in the project profile of OWTF Phase 1 in October 2007, the EPD had planned to commence tendering for the project in July 2010 with a view to commissioning the facility in March 2013. However, the tender exercise for the project carried out in 2011 was cancelled in the public interest. Audit noted that the price of the lowest tender was significantly higher than the Government's earmarked funding at that time for the proposed works, which had been based on the EPD's project estimate made in late 2009. The EPD informed the EA Panel in November 2010 that the project estimate was \$489 million. Audit examination revealed that some cost components had been omitted or significantly under-estimated in the project estimate of \$489 million, leading to significant under-estimation of the project cost made in 2010 (paras. 3.20, 3.22(a), 3.23, 3.28(a) and 3.32).

12. In February 2013, the EPD carried out a re-tender exercise for the project. In October 2014, the Finance Committee of LegCo approved funding of \$1,589.2 million for the project. In December 2014, the EPD awarded a design-build-operate contract for the project. The works commenced in December 2014 and were scheduled for completion in March 2017. Partly owing to the cancellation of the tender exercise in 2011 and re-tendering of the project in 2013, the commissioning of OWTF Phase 1 would be postponed by four years, and during the period a substantial quantity of food waste would be disposed of at landfills instead of being treated by the facility. OWTF Phase 1 was designed to treat 200 tpd or 73,000 tonnes of food waste a year (paras. 3.18, 3.19, 3.26 and 3.31).

13. ***Small number of households in public rental housing (PRH) estates participating in food-waste recycling trial schemes.*** Audit noted that the Housing Department invited 52,000 (77%) of the total 67,600 households in 14 PRH estates to participate in food-waste-recycling trial schemes, under which most of the food waste collected would be delivered to a private food-waste-recycling plant for recycling into fish feed. In the event, only 6.2% of the 52,000 households participated in the schemes. In mid-2014, the schemes implemented in 13 of the 14 PRH estates ceased (paras. 3.44, 3.45 and 3.48).

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14. *Low utilisation of food-waste recycling facilities in private housing estates.* From November 2011 to June 2015, the Environment and Conservation Fund had approved funding totalling \$41.2 million for 40 private housing estates for implementing two-year food-waste recycling projects, partly for leasing on-site food-waste treatment machines. As of June 2015, 16 of the 40 estates had commenced and some had completed the projects. Audit noted that only 4.6% of the 43,091 households residing in the 16 estates had participated in the projects, which was lower than the EPD's estimated participation rate of 10%. Moreover, while a food-waste treatment machine installed in each estate could treat 100 kg of food waste a day, each of the 16 estates on average only provided 42.7 kg of daily food waste for treatment (paras. 3.53(a), 3.57 to 3.60).

Way forward

15. It is a cause for concern that the quantity of food waste disposed of at landfills had increased from 1.18 million tonnes in 2004 to 1.33 million tonnes in 2013 (a 13% increase). Moreover, Hong Kong's per-capita domestic food waste of 0.37 kg per day was 85% higher than the 0.2 kg each of Taipei and Seoul. In view of the serious problems caused by the disposal of significant quantity of food waste at landfills and the piecemeal government actions before 2014 to address this problem (see para. 3), the ENB/EPD need to strengthen efforts and expedite actions to tackle the problems encountered in implementing the various measures promulgated in the 2014 Food Waste Plan (paras. 4.4 and 4.5).

16. As OWTF Phases 1 to 3 will help reduce disposal of 0.3 million tonnes of food waste at landfills a year (representing 23% of the 1.33 million tonnes of food waste disposal in 2013), it is of utmost importance that the facilities could be provided according to the EPD's timeframe. The ENB/EPD also need to strengthen efforts on implementing trial schemes for separating and collecting food waste from the domestic and the C&I sectors to gain experience and inculcate the general public's behavioural changes in waste disposal, without which the effectiveness of the implementation of OWTFs could be undermined (paras. 1.3, 4.6 and 4.7).

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Audit recommendations

17. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Government/the HA should:**

Reduction in food waste

- (a) **be vigilant in monitoring the generation and disposal of food waste against the targets and take early corrective actions in future (para. 2.37(a));**
- (b) **remind government departments of the need to demonstrate full support to the Government's policy on food-waste reduction by signing the FW Charter (para. 2.37(b));**
- (c) **conduct reviews of food-waste quantities of CSD institutions and HA hospitals with a view to identifying areas for improvement (paras. 2.49(a) and 2.50(a));**
- (d) **periodically conduct surveys on lunch practices of all whole-day schools and encourage schools to adopt on-site meal portioning as far as possible (para. 2.88(a) and (d));**
- (e) **take measures to ensure that all new schools installed with related facilities adopt on-site meal portioning (para. 2.90(b));**

Recycling of food waste

- (f) **take measures to provide clear, relevant and important information to LegCo in future (para. 3.13(a));**
- (g) **strengthen efforts to encourage more C&I premises to participate in food-waste recycling schemes (para. 3.13(b));**

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- (h) endeavour to make a reasonable cost estimate in implementing a works project in future so that the Government can earmark sufficient funding for the project (para. 3.39(a)(ii));
- (i) invite as many households as possible, and strengthen efforts to encourage households, to participate in food-waste recycling schemes in PRH estates in future (para. 3.50(a)(i) and (ii));
- (j) consider providing support and strengthen efforts to encourage participating private estates to invite more households to participate in food-waste recycling schemes in future (para. 3.67(a)(i));

Way forward

- (k) strengthen efforts to ensure that OWTF Phase 1 would commence operation by 2017 and, subject to resource availability, commission OWTF Phases 2 and 3 by 2020 and 2022 respectively (para. 4.11(b)); and
- (l) map out and implement an effective system for separating, collecting and transporting food waste from the C&I and domestic sectors to OWTFs for treatment (para. 4.11(d)(ii)).

Response from the Government and the Hospital Authority

18. The Government and the HA agree with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 In general, there are two categories of food waste, namely:

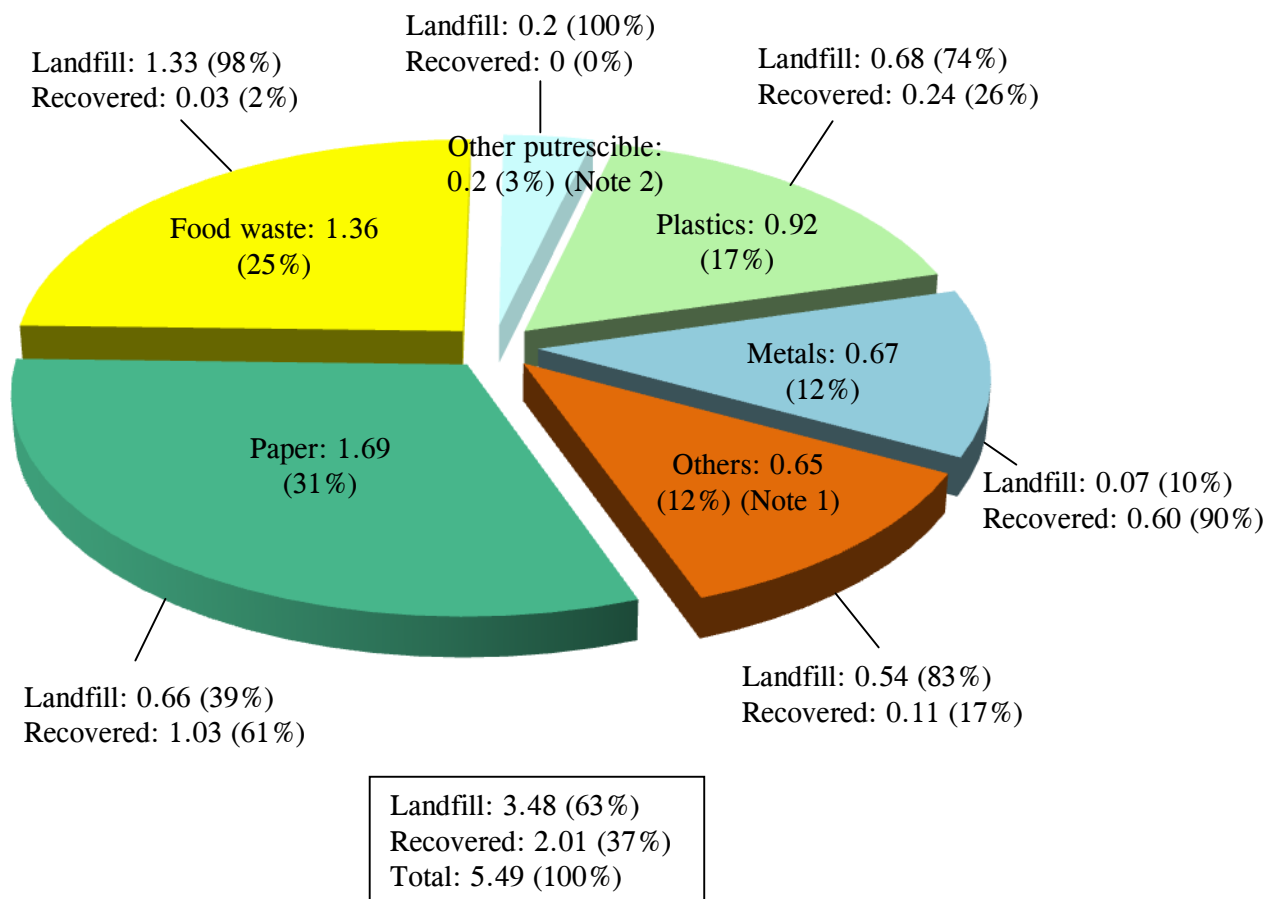
- (a) pre-consumer food waste which includes vegetative food waste (such as spoiled produce and vegetable/fruit trimmings), animal food waste (such as unwanted fish, meat and dairy products) and waste generated from food processing; and
- (b) post-consumer food waste which includes served food that has been left uneaten (i.e. plate scraping).

1.3 In 2013, Hong Kong generated 5.49 million tonnes of municipal solid waste (MSW), of which 3.48 million tonnes (63%) or 9,547 tonnes per day (tpd) were disposed of at landfills, and the remaining 2.01 million tonnes (37%) or 5,503 tpd were recovered for recycling (Note 1). Of the 5.49 million tonnes of MSW generated, 1.36 million tonnes (25%) were food waste, of which 1.33 million tonnes (98%) were disposed of at landfills and the remaining 0.03 million tonnes (2%) were recycled mainly as compost or fertiliser for greening and agriculture uses (see Figure 1). Food waste accounted for 38% of the 3.48 million tonnes of the MSW being disposed of at the three landfills in Hong Kong.

Note 1: *The 5.49 million tonnes of MSW generated and 2.01 million tonnes of MSW recovered included unknown quantities of import recyclables processed for export (see PART 2 of Chapter 1 of Director of Audit's Report No. 65).*

Figure 1

**MSW generation
(in million tonnes)
(2013)**



Source: Audit analysis of Environmental Protection Department records

Note 1: Other MSW mainly included waste glass, textiles, wood, rattan and miscellaneous household waste.

Note 2: Other putrescible mainly included yard waste and other organic waste.

Remarks: The MSW recovery quantities included unknown quantities of import recyclables processed for export (see PART 2 of Chapter 1 of Director of Audit's Report No. 65). As of September 2015, most of the related statistics for 2014 were not available.

1.4 Food waste is generated from:

- (a) the domestic sector including households and schools; and
- (b) the commercial and industrial (C&I) sector including shops, restaurants, offices, hotels, factories and other businesses.

1.5 In 2013, of the 1.36 million tonnes of food waste generated, 0.97 million tonnes (71%) and 0.39 million tonnes (29%) came from the domestic and C&I sectors respectively. According to the Environmental Protection Department (EPD), the per-capita-per-day domestic food waste was 0.37 kilogram (kg), which was 85% higher than the 0.2 kg each generated by Taipei and Seoul, and the weight (Note 2) of Hong Kong's 3,600 tpd of food waste being disposed of at landfills is approximately equivalent to that of 250 double-decker buses.

Three landfills

1.6 Hong Kong has three landfills for the disposal of MSW, construction waste and special waste, namely Southeast New Territories (SENT) Landfill occupying an area of 100 hectares (ha — Note 3) in Tseung Kwan O, Northeast New Territories (NENT) Landfill occupying an area of 61 ha in Ta Kwu Ling and West New Territories (WENT) Landfill occupying an area of 110 ha in Nim Wan (Note 4). In 2013, 0.72 million tonnes (21%), 0.78 million tonnes (22%) and 1.98 million tonnes (57%) of MSW were respectively disposed of at SENT, NENT and WENT Landfills (totalled 3.48 million tonnes). From January 2016, SENT Landfill will cease receiving MSW and will only receive construction waste.

Note 2: *EPD landfill contractors conducted weighing of MSW before its disposal at landfills and annual waste composition surveys. The composition of MSW (including food waste) disposal was estimated based on the sample data collected from the surveys.*

Note 3: *A hectare (or 10,000 square metres) of land is approximately the size of a standard football pitch. Of the 100 ha of land of SENT Landfill, 50 ha is reclaimed land.*

Note 4: *Of the 110 ha of land of WENT Landfill, 43 ha is reclaimed land.*

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1.7 In December 2014, the EPD estimated that SENT, NENT and WENT Landfills would reach their original design capacity by 2015, 2016-17 and 2018-19 respectively. In the same month, the Finance Committee (FC) of the Legislative Council (LegCo) approved funding of \$2,101.6 million and \$7,510 million for extension works for SENT and NENT Landfills respectively, which would extend the serviceable lives of the two landfills to 2023 and 2028 respectively. Upon completion of extension works, the areas of SENT Landfill will increase from 100 ha to 113 ha (Note 5) and NENT Landfill from 61 ha to 131 ha. Furthermore, the FC also approved in December 2014 funding of \$38 million for carrying out the detailed study, site investigation and tender preparation work for WENT Landfill extension works. Subject to funding approval, the proposed works would extend WENT Landfill area from 110 ha to 310 ha.

1.8 In 2013, 1.33 million tonnes (38%) of 3.48 million tonnes of MSW disposed of at landfills were food waste. Therefore, effective measures to reduce food-waste quantities disposed of at landfills will significantly help preserve the precious landfill space and extend landfill serviceable lives.

Government strategies and measures

1.9 As the executive arm of the Environment Bureau (ENB), the EPD is responsible for, inter alia, implementing waste management policies and strategies. The EPD is headed by the Permanent Secretary for the Environment who also assumes the office of the Director of Environmental Protection. Appendix A shows an extract of the organisation chart of the EPD.

1.10 In December 2005, the EPD published the “Policy Framework for the Management of Municipal Solid Waste (2005-2014)” (hereinafter referred to as the 2005 Policy Framework), which set out strategies, targets and action plans on avoidance and minimisation; reuse, recovery and recycling; and bulk reduction and disposal of MSW. The waste reduction and recycling targets and related action

Note 5: *According to the EPD, the landfill extension would occupy 13 ha of additional land in Tseung Kwan O Area 137.*

plans were updated in January 2011. In May 2013, the ENB published the “Hong Kong Blueprint for Sustainable Use of Resources (2013-2022)” (hereinafter referred to as the 2013 Blueprint), which set out targets to reduce the per-capita-per-day MSW disposal rate from 1.27 kg in 2011 to 1 kg or less by 2017, and further to 0.8 kg or less by 2022.

1.11 In February 2014, the ENB published “A Food Waste and Yard Waste Plan for Hong Kong (2014-2022)” (hereinafter referred to as the 2014 Food Waste Plan). The 2014 Food Waste Plan set the following target:

Reducing food-waste disposal at landfills by 40% by 2022, using 2011 as the base year.
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1.12 The 2014 Food Waste Plan also promulgated the following four components of the Government’s strategy to achieve the food-waste-reduction target:

- (a) mobilising the community to prevent and reduce food waste at source and donate surplus food to people;
- (b) promoting and incentivising food-waste separation by the community;
- (c) implementing food-waste recycling by treating and turning separated food waste into renewable energy and converting food-waste residue into compost and fertiliser; and
- (d) providing waste-to-energy treatment for non-separated food waste.

1.13 The proposed measures set out in the 2014 Food Waste Plan for achieving the food-waste-reduction target included:

- (a) implementing food-waste prevention and reduction measures, mainly by implementing the Food Wise Hong Kong Campaign (FW Campaign), with an estimate of reducing the quantity of food waste by about 5% to 10% by 2017-18;

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- (b) implementing an MSW charging scheme aiming to reduce MSW including food waste, with an estimate of further reducing the quantity of food waste by another 10% to 15% between 2017 and 2022;
- (c) carrying out food-waste recycling by a private operator at EcoPark (Note 6) aiming to reduce food-waste quantity by 100 tpd by 2015-16; and
- (d) providing organic waste treatment facilities (OWTFs — Note 7) for recycling food waste aiming to reduce food waste by 200 tpd through the provision of the first OWTF in mid-2016, another 300 tpd through the provision of the second OWTF in end 2018, and another 300 tpd through the provision of the third OWTF in early 2021.

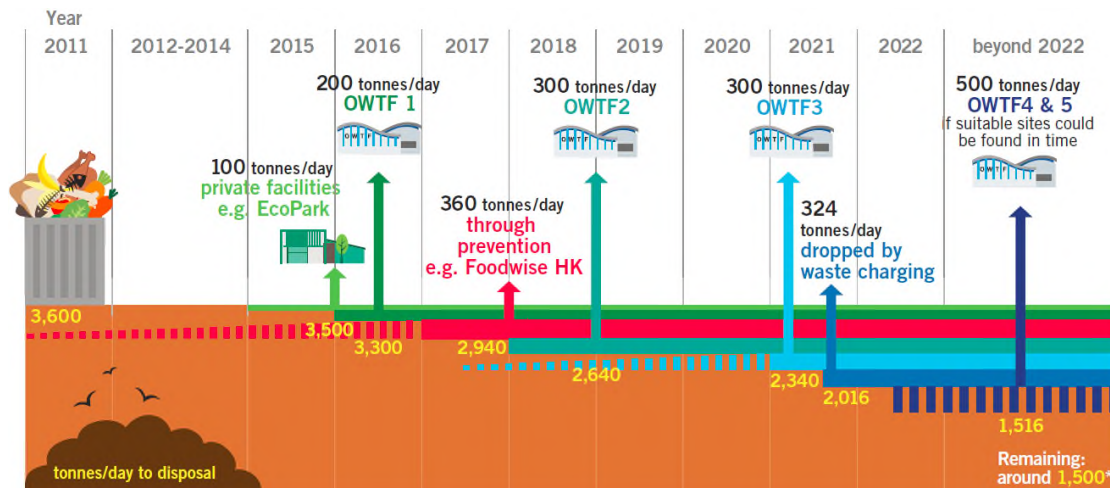
Figure 2 shows the envisaged dates and quantities of food-waste reduction by implementing the above-mentioned measures.

Note 6: *EcoPark, a 20-ha-waste-recovery park located in Tuen Mun, was developed by the EPD at a cost of \$308 million mainly for providing land at affordable cost for the recycling industry. In October 2012, the EPD and a private operator entered into a tenancy for using a land lot occupying an area of 8,500 square metres at EcoPark for recycling food waste at a monthly rent of \$180,000. Under the tenancy, the operator needed to process a minimum of 2,800 tonnes of food waste a month. The operation commenced in May 2015.*

Note 7: *OWTFs adopt biological treatment technologies for recycling and treating food waste. The treatment processes would generate biogas (a renewable energy similar to natural gas) and the residue of treatment can be used as compost or fertiliser.*

Figure 2

Projected food-waste reduction (2014)



Source: EPD records

1.14 Apart from minimising the use of the limited landfill space for disposal of food waste, strategies and actions to reduce and recycle food waste would also contribute to:

- reducing related resources used in food production;
- reducing greenhouse-gas emissions;
- recovering useful resources from food waste; and
- reducing the social cost of handling and treating food waste.

1.15 In 2014-15, the estimated recurrent expenditure of the EPD's waste (including food waste) management programme was \$2,049 million. The estimated operation cost (including collection and transfer cost) of disposing of a tonne of MSW (including food waste) was \$520.

Audit review

1.16 From 2001 to 2010, the Audit Commission (Audit) completed four reviews to examine Government actions on management of MSW. The review results were included in the following reports:

- (a) Chapter 8 of the Director of Audit's Report No. 36 of March 2001 entitled Provision of refuse transfer stations;
- (b) Chapter 7 of the Director of Audit's Report No. 39 of October 2002 entitled Management of municipal solid waste;
- (c) Chapter 11 of the Director of Audit's Report No. 51 of October 2008 entitled Reduction and recovery of municipal solid waste; and
- (d) Chapter 5 of the Director of Audit's Report No. 54 of March 2010 entitled Development of EcoPark.

1.17 The reviews found areas for improvement in the implementation of various strategies and action plans on reduction, recycling and disposal of MSW. The Public Accounts Committee of LegCo conducted public hearings in 2008 and 2010 to examine the findings included in two audit reports (see para. 1.16(c) and (d)).

1.18 In January 2015, Audit commenced a review to examine the Government's efforts in managing MSW (see Chapter 1 of the Director of Audit's Report No. 65). In May 2015, Audit commenced a review of the reduction and recycling of food waste by the Government (the subject matter of this review).

1.19 This review focuses on the following areas:

- (a) reduction in food waste (PART 2);
- (b) recycling of food waste (PART 3); and
- (c) way forward (PART 4).

Audit has identified areas where improvements can be made by the Government in the above areas and has made recommendations to address the issues.

Acknowledgement

1.20 Audit would like to acknowledge with gratitude the full cooperation of the staff of the ENB, the EPD, the Education Bureau (EDB), the Financial Services and the Treasury Bureau (FSTB), the Hospital Authority (HA) and the 12 government bureaux and departments (B/Ds — Note 8) that had been invited to sign the Food Wise Charter (FW Charter) under the FW Campaign during the course of the audit review.

Note 8: *The EPD invited the following 12 B/Ds to sign the Food Wise Charter: (1) the Auxiliary Medical Service; (2) the Civil Aid Service; (3) the Correctional Services Department; (4) the Customs and Excise Department; (5) the Fire Services Department; (6) the Food and Environmental Hygiene Department; (7) the Government Flying Service; (8) the Government Property Agency; (9) the Hong Kong Police Force; (10) the Housing Department; (11) the Immigration Department; and (12) the Leisure and Cultural Services Department.*

PART 2: REDUCTION IN FOOD WASTE

2.1 This PART examines actions taken by the ENB/EPD, the EDB, other relevant B/Ds and the HA in reducing food waste, focusing on:

- (a) measures to meet government target on food-waste reduction (see paras. 2.6 to 2.41);
- (b) food-waste reduction at Correctional Services Department (CSD) institutions and HA hospitals (see paras. 2.42 to 2.52); and
- (c) food-waste reduction at schools (see paras. 2.53 to 2.92).

2.2 Using 2011 as the base year, with an aim to achieving the Government's target to reduce food-waste disposal at landfills by 40% by 2022, the 2014 Food Waste Plan promulgated two major measures for reducing food-waste generation (see Table 1).

Table 1

Projected food-waste reduction quantities by 2022

Particulars	Projected food-waste reduction quantity (tpd)
Food-waste reduction measures (see Figure 2 in para. 1.13)	
MSW charging scheme (see paras. 2.8 to 2.10)	324 (9% of 3,600 tpd)
FW Campaign (see paras. 2.16 to 2.36)	360 (10% of 3,600 tpd)
Total	684
Food-waste quantity disposed of at landfills in 2011 (base year)	3,600

Source: Audit analysis of EPD records

2.3 One of the objectives of the FW Campaign was to coordinate efforts within the Government and public institutions to lead by example in food-waste reduction. Audit noted that different B/Ds and government-subsidised non-governmental organisations (NGOs) had made various efforts in participating in food-waste-reduction programmes. As the CSD and the HA are respectively the largest B/D and government-subsidised organisation involving provision of meals thereby generating food waste, Audit examined in detail the actions taken by these two organisations in reducing food waste. From 2013 to 2015, the 37 HA hospitals reported that they together had achieved 0.7 tpd of food-waste reduction after implementing food-waste-reduction programmes. Regarding the 29 CSD institutions, the CSD did not conduct periodic food-waste surveys to monitor the progress of reducing food-waste generation (see paras. 2.42 to 2.52).

2.4 From 2008 to September 2015, the Environment and Conservation Fund (ECF — Note 9) had provided funding for 109 schools and 31 NGOs to install on-site food-waste composters. In April 2009, January 2011 and March 2012, the ENB/EPD informed the LegCo Panel on Environmental Affairs (EA Panel) of the progress of implementing the key initiatives proposed under the 2005 Policy Framework covering pilot projects for promoting on-site food-waste composters at hotels and shopping malls with restaurants, ECF funding support for installing on-site food-waste composters in housing estates, the progress of planning OWTF Phases 1 and 2, the initiation and promotion of education and publicity programmes, and the implementation of the Food Waste Recycling Partnership Scheme.

2.5 According to the ENB, schools are the best places for inculcating social values like care for the environment, and accordingly more efforts have been made to promote food-waste reduction at schools. In this connection, in September 2009 and March 2010, the ECF approved allocation of a total of \$150 million to support schools to install facilities for them to adopt on-site meal portioning. Audit examined the actions taken by the EDB and the ENB/EPD in reducing food waste generated by students taking lunch at school. From December 2009 to June 2015, the 34 schools adopting on-site meal portioning funded by the ECF (which had provided food-waste quantities both before and after adopting the practice) reported that they together had achieved 0.8 tpd of food-waste reduction (see paras. 2.53 to 2.92).

Note 9: *The ECF was established in 1994 for funding educational, research and other projects and activities in relation to environmental and conservation matters. As of March 2014, the FC had approved funding totalling \$6,735 million for the ECF. The Secretary for the Environment acts as the trustee of the ECF.*

Measures to meet government target on food-waste reduction

2.6 It was stated in the 2005 Policy Framework that Hong Kong was able to take up by-products (mainly compost) produced from about 500 tpd of biodegradable waste (including food waste) collected from the C&I sector. In the 2013 Blueprint, the Government estimated that, by 2022, at least 500 tpd of food and organic waste would be treated to produce biogas and compost. Apart from these initiatives, neither the 2005 Policy Framework nor the 2013 Blueprint set other specific targets for reduction of food waste. Instead, they only set the following targets for reduction of MSW:

- (a) **2005 Policy Framework.** Reducing the quantity of MSW generated by 1% per annum up to year 2014, using 2003 as the base year; and
- (b) **2013 Blueprint.** Reducing the per-capita-per-day MSW disposal from 1.27 kg (using 2011 as the base year) to 1 kg or less by 2017, and to 0.8 kg or less by 2022.

2.7 In the 2014 Food Waste Plan, the ENB, for the first time, set the following specific target for reduction of food waste:

Reducing food-waste disposal at landfills by 40% by 2022, using 2011 as the base year.

Implementation of MSW charging scheme

2.8 According to the EPD, MSW charging provides an effective incentive that changes behaviour and leads people to cut down on waste generation. Overseas experience shows that MSW charging could help reduce significant waste generation (Note 10).

Note 10: *According to the EPD, since implementing the MSW charging scheme, South Korea's per-capita MSW disposal rate had dropped by 40% in a few years' time while Taipei City's per-capita disposal rate of household garbage had dropped by 65% in about 11 years.*

2.9 In December 2005, the EPD informed the Advisory Council on the Environment (ACE — Note 11) that the main objectives of MSW charging were to:

- (a) create an economic incentive for waste producers to avoid and reduce, or to recover and recycle waste; and
- (b) prevent indiscriminate use of landfills and other waste-treatment facilities.

2.10 The Government set a time target in the 2005 Policy Framework that the MSW charging bill would be submitted to LegCo in 2007. However, up to August 2015 (eight years after the original time target), the MSW charging bill had not been submitted to LegCo. According to the EPD, the MSW charging bill would be submitted to LegCo as soon as practicable within the 2016-17 legislative session. Details of implementation of the scheme and Audit's comments are included in PART 2 of Chapter 1 of Director of Audit's Report No. 65.

Areas for improvement

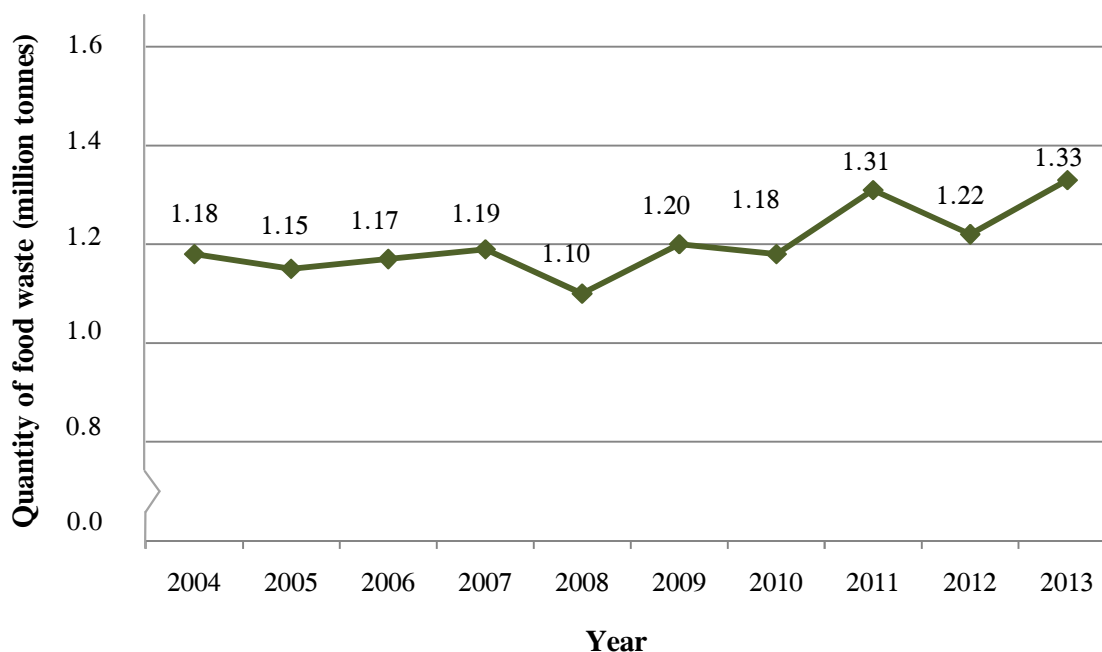
Timely actions not taken to address the food-waste disposal problem

2.11 As stated in paragraph 2.6, although the 2005 Policy Framework and 2013 Blueprint both set specific targets for reduction of MSW, apart from the estimate stated in the 2013 Blueprint that, by 2022, at least 500 tpd of food and organic waste would be treated to produce biogas and compost, they did not lay down specific targets for the reduction of food waste. Audit noted that, during the ten years from 2004 to 2013, the actual quantity of food-waste disposed of at landfills had increased from 1.18 million tonnes in 2004 (or 3,227 tpd) to 1.33 million tonnes in 2013 (or 3,648 tpd), representing a 13% increase (see Figure 3).

Note 11: *The ACE is the Government's principal advisory body on matters relating to pollution control, environmental protection and nature conservation. It is chaired by an academic with members comprising academics, businessmen, professionals and representatives from major green groups, and trade and industrial associations.*

Figure 3

**Actual food-waste disposal
(2004 to 2013)**



Source: EPD records

Remarks: According to the EPD, from 2004 to 2013, Hong Kong's annual Gross Domestic Product had increased from \$1,317 billion to \$2,132 billion (a 62% increase), the annual number of visitors from 22 million to 54 million (a 145% increase), and population from 6.8 million to 7.2 million (a 6% increase). However, Audit noted that, according to the 2005 Policy Framework (see para. 2.6(a)), it was targeted that the quantity of MSW including food-waste generation would decrease by 1% per annum up to 2014, using 2003 as the base year.

2.12 The disposal of 1.18 million to 1.33 million tonnes of food waste at landfills a year (or 3,227 to 3,648 tpd) from 2004 to 2013 had not only dwindled the limited and precious landfill space, it also exacerbated environmental problems arising from the decomposition of the waste, such as landfill gas and leachate generation. The former is malodorous, potentially suffocating and flammable while the latter is a highly polluting liquid (Note 12). Furthermore, food waste takes a long time to decompose and may cause differential settlement and instability of landfill surface, thus adversely affecting the early gainful use of closed landfill sites. The mixing up of food waste with recyclables also contaminates the latter and prevents them from being separated properly for recycling.

2.13 In PART 3 of Chapter 11 of Director of Audit's Report No. 51 of October 2008 (see para. 1.16(c)), Audit recommended that the EPD should expedite action on the recovery and recycling of putrescible waste (including food waste).

2.14 Given the fact that the quantity of food waste disposed of at landfills had increased by 13% from 2004 to 2013 and accounted for about 38% of MSW disposed of at landfills in 2013, Audit considers it unsatisfactory that the ENB and the EPD only in 2014 for the first time set a specific target of reducing food-waste disposal at landfills by 40% by 2022. More timely actions should have been taken to address the food-waste problem.

2.15 Audit notes that resolving environmental problems requires a long time, a change in the habits of the community and substantial capital investment. Therefore, taking into consideration the long time required in the process, the ENB/EPD need to be vigilant in monitoring the generation and disposal of food waste against the targets and take early corrective actions in future.

Note 12: *According to the EPD: (a) as the entire surface area of the landfill sites had been constructed with multilayer-liner systems, landfill gas and leachate could be collected and properly treated to minimise the impact on the environment; and (b) for example, landfill gas at NENT Landfill had been exported for off-site use and, starting from 2016, landfill gas at SENT Landfill will be exported for use and will result in an annual reduction in about 56,000 tonnes of carbon dioxide generated from SENT Landfill.*

Reduction in food waste

Many B/Ds invited but not signing the FW Charter

2.16 As stated in Table 1 in paragraph 2.2, the implementation of the FW Campaign is the ENB/EPD's major initiative for reducing food waste. The Campaign may help reduce 5% to 10% (Note 13) of food waste (0.07 million to 0.13 million tonnes a year or 180 to 360 tpd) by 2017-18, using 2011 as the base year.

2.17 With a view to reducing food-waste generation, in December 2012, the Food Wise Hong Kong Steering Committee (Note 14) was set up to oversee the implementation of the FW Campaign, which was formally launched in May 2013. The objectives of the FW Campaign comprised:

- (a) promoting awareness of the community on Hong Kong's waste management problems, and instilling behavioural changes at individual and household levels that would help reduce food-waste generation;
- (b) coordinating efforts within the Government and public institutions to lead by example in food-waste reduction;
- (c) drawing up and promoting good practices on food-waste reduction of C&I establishments, and encouraging leadership to take action and share best practices; and
- (d) facilitating food donation in the community.

Note 13: *According to the 2014 Food Waste Plan, the estimated 5% to 10% food-waste reduction was derived from the British experience where the national average food-waste reduction of 2% was achieved (the highest reduction rate in some districts was 14%) after a period of intense public education.*

Note 14: *The Committee is chaired by the Secretary for the Environment, with members drawn from the relevant sectors including catering, hotel, retail, property management, education, academia, green group and food-recipient organisation, and relevant B/Ds.*

2.18 Since rolling out of the FW Campaign in May 2013, the ENB/EPD have launched some programmes and activities to promote food-waste reduction (see Appendix B). Figure 4 shows a poster of the FW Campaign, depicting the icon of “Big Waster” which aims to promote a food-wise culture in Hong Kong.

Figure 4

A poster of FW Campaign



Source: EPD records

2.19 Under the FW Campaign, the ENB/EPD introduced the FW Charter in May 2013. The objectives of the FW Charter included encouraging public participation in and soliciting public support for food-waste-reduction programmes, instilling behavioural changes and raising public awareness on the issue. The FW Charter was open to enrolment by all local businesses and organisations. According to the EPD, since 2013, the ENB/EPD had invited catering services, hotels, retail businesses, property management companies, the education sector, green groups, food-recipient organisations and relevant B/Ds to show their support for the FW Campaign and to commit to reducing food waste by signing the FW Charter. As of June 2015, there were 415 FW Charter signees.

2.20 By signing the FW Charter, a signee pledged to implement the following food-waste-reduction measures:

Reduction in food waste

- (a) promoting best practices and behavioural changes to reduce food waste;
- (b) drawing up plans to promote the awareness and acceptance of food-waste reduction best practices by stakeholders within the organisations;
- (c) implementing plans with measurable targets to reduce food waste in their organisations and business settings;
- (d) encouraging and supporting the management of organisations to conduct in-house waste audits and to use the results of the audits to improve waste management performance;
- (e) supporting the FW Campaign and similar initiatives to encourage behavioural and cultural changes that engender respect for the precious food and natural resources;
- (f) promoting and adopting recipes that make use of food trimmings; and
- (g) supporting food donation activities whenever possible.

2.21 Moreover, the EPD recruited Food Wise Hong Kong Ambassadors from the community and FW Charter signees for spreading food-waste-reduction messages. The EPD organised training workshops for the Ambassadors on food-waste-reduction tips designed for specific sectors (e.g. food and beverage sector, and residential and household sectors). As of June 2015, there were a total of 2,759 Food Wise Hong Kong Ambassadors. From May 2013 to June 2015, the EPD had organised a total of 28 training workshops for the Ambassadors. The FW Campaign was awarded an Excellence Award at the “HKMA/TVB Awards for Marketing Excellence 2014” in recognition of its success in taking root in the community and promoting a food-wise culture in Hong Kong.

2.22 From May to October 2013, the EPD had invited 12 B/Ds to sign the FW Charter. However, as of June 2015, only 4 B/Ds and one of the 29 institutions of the CSD had signed the Charter. Table 2 shows the 12 B/Ds that had been invited to sign the FW Charter.

Table 2

**B/Ds invited to sign FW Charter from May to October 2013
(Position as of June 2015)**

B/D	Signed in or before June 2015	Not yet signed as of June 2015
(a) Managing in-house catering services		
Auxiliary Medical Service (AMS)	-	✓
Civil Aid Service (CAS)	✓	-
CSD (except Lo Wu Correctional Institution — Note)	-	✓
Customs and Excise Department (C&ED)	-	✓
Fire Services Department (FSD)	✓	-
Government Flying Service (GFS)	✓	-
Hong Kong Police Force (HKPF)	-	✓
Immigration Department (ImmD)	✓	-
(b) Managing premises generating significant food waste		
Food and Environmental Hygiene Department (FEHD)	-	✓
Government Property Agency (GPA)	-	✓
Housing Department (HD)	-	✓
Leisure and Cultural Services Department (LCSD)	-	✓
Total	4	8

Source: Audit analysis of B/Ds records

Note: Lo Wu Correctional Institution was the CSD's second largest institution in terms of the number of persons-in-custody. According to the CSD, this institution had signed the FW Charter because it had obvious room for food-waste reduction.

Remarks: The EPD invited the B/Ds in category (a) to sign the FW Charter by emails and those in category (b) at an inter-departmental meeting on supporting waste recycling held in October 2013.

2.23 In response to Audit's enquiries, all the 8 B/Ds which had not signed the FW Charter provided Audit with their reasons for not signing the Charter and the food-waste reduction measures adopted by them. The reasons included having a small-scale canteen and not understanding the EPD requirements (see Appendix C for details).

Reduction in food waste

2.24 As one of the objectives of the FW Campaign was for the EPD to coordinate efforts within the Government and public institutions to lead by example in food-waste reduction (see para. 2.17(b)), Audit considers it unsatisfactory that, in response to the EPD's invitation in 2013, up to June 2015, 8 (67%) of the 12 B/Ds had not signed the FW Charter.

2.25 In Audit's view, the ENB/EPD need to remind B/Ds having been invited to sign the FW Charter of the need to demonstrate full support to the Government's policy on food-waste reduction by signing the Charter.

Need to improve evaluation of FW Campaign effectiveness

2.26 Under the 2014 Food Waste Plan, the ENB/EPD envisaged that the FW Campaign launched in May 2013 might help reduce 5% to 10% of food waste by 2017-18, using 2011 as the base year. In order to monitor the progress of the implementation of the FW Campaign and assess the extent of achievement in food-waste reduction, in respect of each of the seven measures under the FW Charter (see para. 2.20), the EPD requested the signees of the FW Charter to submit returns on:

- (a) planned actions, initial targets and timeframe for implementation;
- (b) progress and achievement of implementation; and
- (c) extent of food-waste reduction through implementing planned actions.

According to the EPD, submissions of the above-mentioned returns were on a voluntary basis.

2.27 As stated in a leaflet "Invitation to sign Food Wise Charter", FW Charter signees would be asked to provide feedback by completing an implementation proforma. According to the EPD, the feedback would be used by the Food Wise Hong Kong Steering Committee to apprehend the signees' efforts made in reducing food waste and to plan for future actions.

2.28 Table 3 shows the number of signees submitting the returns and related data.

Table 3
FW Charter signees' returns
(2013 to 2015)

Particulars	September 2013 (No.)	June 2014 (No.)	February 2015 (No.)	Total (No.)
(a) Returns that should have been called for by the EPD	291	353	383	1,027
(b) Returns called for by the EPD	226 (78% of 291)	314 (89% of 353)	268 (70% of 383)	808 (79% of 1,027)
(c) Returns submitted by signees (up to July 2015)	47 (21% of 226)	29 (9% of 314)	32 (12% of 268)	108 (13% of 808)
(d) Returns submitted with measurable food-waste-reduction data	10 (21% of 47)	11 (38% of 29)	5 (16% of 32)	26 (24% of 108)

Source: Audit analysis of EPD records

2.29 As shown in Table 3, of the 291, 353 and 383 returns (totalled 1,027 returns) that should have been called for by the EPD in 2013, 2014 and 2015 respectively, the EPD only called for 226, 314 and 268 returns (totalled 808 returns), omitting to call for the other 219 returns (21%). In Audit's view, the ENB/EPD need to take measures to prevent recurrence of similar omissions in future.

2.30 Moreover, Table 3 also shows that, of the total 808 returns called for by the EPD from 2013 to 2015, only 108 (13%) returns from the FW Charter signees had been received. Audit noted that the EPD had not sent reminders to the related signees to ask for the returns. Audit considers that the ENB/EPD need to take actions to ascertain the reasons of many signees not submitting returns and their difficulties in doing so with a view to providing necessary assistance to them.

Reduction in food waste

2.31 Furthermore, of the total 108 returns submitted by signees from September 2013 to July 2015, only 26 (24%) contained measurable food-waste-reduction data. In this connection, Audit noted that the EPD had not issued guidelines to the signees on methodologies for compiling measurable food-waste-reduction data, which were essential for assessing the effectiveness of the FW Campaign. Audit considers it undesirable that, of the total 1,027 returns that should have been submitted by signees of the FW Charter, only 26 (2.5%) returns contained measurable food-waste-reduction data.

2.32 In October 2015, the EPD informed Audit that:

- (a) for wider sharing with other stakeholders and FW Charter signees, the EPD had taken actions to encourage participation and feedback from FW Charter signees such as by gathering experiences and feedback from the signees once every six months wherever possible. The EPD had shared some good stories obtained from FW Charter signees through various workshops and by displaying the stories in its roving exhibitions in different districts. The EPD had consolidated useful experiences from the signees in the Good Practice Guides for six sectors (see item 8 in Appendix B) and the Feature Articles on Food Waste Reduction published on the FW Campaign website; and
- (b) where measurable data were provided, the EPD would deploy the information for sharing and promotion. While the EPD would continue to assist FW Charter signees to provide measurable data, some signees might not be ready to do so as they did not manage food-waste generating facilities directly, or the food-waste-reduction data might not be available or comprehensive enough.

2.33 As instituting new processes and changing people's habits on food-waste reduction require time and sustained efforts, the ENB/EPD need to monitor progress and achievement and strengthen efforts to increase participation of B/Ds and the community in food-waste-reduction programmes. In Audit's view, the ENB/EPD need to issue guidelines on compiling measurable food-waste-reduction data, provide food-waste-reduction guidance to B/Ds that have contracted out catering services, and strengthen efforts to encourage the signees to submit returns and

related measurable data. In order to provide incentives for signees to submit returns and related data, the ENB/EPD need to consider publishing the related data and good practices of the best-performing signees and extend some forms of commendation to them.

2.34 Given that only 26 returns contained measurable food-waste-reduction data, the ENB/EPD need to explore ways and means to evaluate the effectiveness of the FW Campaign and the extent of achieving the projected reduction of food waste by 5% to 10% by 2017-18, using 2011 as the base year.

2.35 Besides, Audit also noted that the following B/Ds who were FW Charter signees had not submitted all the data required:

- (a) **CAS.** It only submitted 1 (in 2015) of the 2 requested returns (in 2014 and 2015), and the return did not include any measurable data; and
- (b) **FSD, GFS and ImmD.** All the 3 returns each of the FSD and the ImmD, and 2 returns of the GFS did not include measurable data.

2.36 As one of the objectives of the FW Campaign is for the ENB/EPD to coordinate efforts within the Government and public institutions to lead by example in food-waste reduction, in Audit's view, the ENB/EPD need to consider publishing the related data of the B/Ds having signed the FW Charter to show the effectiveness of their efforts made in reducing food waste and in support of the Government's policy on food-waste reduction.

Audit recommendations

2.37 **Audit has recommended that the Secretary for the Environment and the Director of Environmental Protection should:**

Timely actions not taken to address the food-waste disposal problem

- (a) **be vigilant in monitoring the generation and disposal of food waste against the targets and take early corrective actions in future;**

Reduction in food waste

Many B/Ds invited but not signing the FW Charter

- (b) **remind B/Ds having been invited to sign the FW Charter of the need to demonstrate full support to the Government's policy on food-waste reduction by signing the Charter;**

Need to improve evaluation of FW Campaign effectiveness

- (c) **take actions to ascertain the reasons of many FW Charter signees not submitting returns and their difficulties in doing so with a view to providing necessary assistance to them;**
- (d) **issue guidelines on methodologies for compiling measurable food-waste-reduction data;**
- (e) **strengthen efforts to encourage FW Charter signees to submit returns and related measurable data;**
- (f) **consider publishing the good practices of the best-performing FW Charter signees together with their food-waste-reduction data, and extend some forms of commendation to them;**
- (g) **explore ways and means to evaluate the effectiveness of the FW Campaign and the extent of achieving the projected reduction of food waste by 5% to 10% by 2017-18, using 2011 as the base year; and**
- (h) **consider publishing the food-waste-reduction data of the B/Ds having signed the FW Charter to show the effectiveness of their efforts made in reducing food waste and in support of the Government's policy on food-waste reduction.**

Response from the Government

2.38 The Secretary for the Environment and the Director of Environmental Protection agree with the audit recommendations. The Director of Environmental Protection has said that:

- (a) for paragraph 2.37(a), the EPD will continue to closely monitor the generation and disposal of food waste against the targets set in the 2014 Food Waste Plan;
- (b) for paragraph 2.37(b), the EPD has followed up with the B/Ds on their difficulties in signing the FW Charter and helped address their concerns. Of the 8 relevant B/Ds yet to sign the Charter as of June 2015 (see Table 2 in para. 2.22), the AMS, the CSD, the C&ED, the HKPF, the GPA and the LCSD had signed the Charter from July to October 2015;
- (c) for paragraph 2.37(e), the EPD will strengthen efforts to encourage and facilitate FW Charter signees to provide returns and related measurable data;
- (d) for paragraph 2.37(f), the EPD will enhance efforts to consolidate good experiences and practices, including those of the Charter signees, and share them through the network of the FW Campaign, including its website, Facebook and good practice guides; and
- (e) for paragraph 2.37(g), the EPD has commissioned a food-waste survey/audit for the food and beverage sector covering the period 2014 to 2016 with a view to providing information to evaluate the effectiveness of the FW Campaign in the sector.

2.39 The Controller, Government Flying Service has said that:

- (a) the GFS will provide the EPD with measurable food-waste-reduction data according to guidelines to be issued by the ENB/EPD;
- (b) since September 2011, the GFS has joined the food-waste recycling programme of the Hong Kong Airport Authority, whose contractor has collected the GFS's food waste for recycling. The contractor had collected 3,873 kg of food waste from the GFS from July to December 2013 and 2,707 kg in 2014; and
- (c) the GFS has signed and implemented the various measures of the FW Charter to increase the green awareness of its staff.

Reduction in food waste

2.40 The Chief Staff Officer, Auxiliary Medical Service has said that:

- (a) the AMS supports the Government's policy on food-waste reduction; and
- (b) as the canteen in the AMS is being operated by a service contractor, the AMS would support the Charter by disseminating information to the contractor in promoting food-waste reduction to encourage him to improve waste management, and putting up posters/publicity materials promoting the Charter.

2.41 The Director of Leisure and Cultural Services has said that the LCSD supports the FW Charter by disseminating information to its contractors to encourage them to improve food-waste management, and putting up posters and publicity materials provided by the EPD for promoting the FW Charter.

Food-waste reduction at Correctional Services Department institutions and Hospital Authority hospitals

2.42 The CSD and the HA are respectively the largest B/D and government-subsidised organisation that involve providing meals. Audit examined the measures taken by these two organisations in reducing food waste.

2.43 As at 21 August 2015, the CSD managed 29 institutions with 8,478 persons-in-custody (PICs). Between April 2013 and May 2014, the CSD launched the "Waste No Food Scheme" at four institutions (Note 15) under which PICs volunteering to participate in the scheme (Note 16) would be provided with 15% to 25% less of rice, potatoes or chapatti. According to the CSD:

Note 15: *The four institutions were Lo Wu Correctional Institution, Nei Kwu Correctional Institution, Tai Lam Centre for Women and Tai Lam Correctional Institution (Elderly Unit).*

Note 16: *According to the CSD, for humane reasons, PICs can participate in the scheme on a voluntary basis.*

- (a) the PICs of the four institutions were either women or elderly who normally consumed less food than PICs at other CSD institutions. These four institutions together achieved about 0.13 tpd of food-waste reduction from October 2014 to September 2015; and
- (b) the quantity of food waste generated in most of the remaining 25 CSD institutions was insignificant.

The per-PIC-per-day quantities of food waste of the 29 CSD institutions are shown in Appendix D.

2.44 Regarding the HA, as at 1 August 2015, it managed 38 hospitals (having a total of 21,724 in-patients) providing in-patient food services. In September 2011, the HA launched a save-rice programme at all HA hospitals by phases under which the quantity of rice served in a meal would be reduced from 0.25 kg to 0.20 kg (a 20% reduction). Nevertheless, in-patients who asked for more rice would be provided with additional rice. Moreover, since 2004, the HA had implemented an arrangement under which HA staff would place on-line meal orders for individual in-patients by taking into account their need and their health conditions.

Areas for improvement

Some CSD institutions generating relatively high per-PIC-per-day food-waste quantity

2.45 As mentioned in paragraph 2.43, from October 2014 to September 2015, four CSD institutions participating in the “Waste No Food Scheme” together had achieved about 0.13 tpd of food-waste reduction. However, the CSD did not conduct periodic food-waste surveys to monitor the progress of reducing food-waste generation of the 29 CSD institutions. In August 2015, in response to Audit’s request, the CSD carried out a food-waste survey on post-consumer food waste (see para. 1.2(b)) on three consecutive days at each of the 29 CSD institutions. The quantities of per-PIC-per-day food waste of each of the 29 institutions are shown in Appendix D.

Reduction in food waste

2.46 As shown in Appendix D, the per-PIC-per-day food-waste quantities of the 29 CSD institutions ranged from 0.02 kg to 1.61 kg (Note 17), with an average of 0.11 kg, revealing that some CSD institutions might have adopted good food-waste-reduction practices thereby achieving low food-waste generation. In Audit's view, the CSD needs to conduct a review of its institutions having relatively low per-PIC-per-day food-waste quantities and those having relatively high per-PIC-per-day food-waste quantities with a view to identifying good practices. The CSD also needs to conduct periodic surveys on food-waste quantities of individual CSD institutions. For public accountability and to provide incentives for improvement, the CSD needs to consider periodically publishing the per-PIC-per-day food-waste quantities of individual CSD institutions.

Some HA hospitals generating relatively high per-in-patient-per-day food-waste quantity

2.47 In 2013-14, 2014-15 and July/August 2015 (Note 18), the HA conducted three annual food-waste surveys on post-consumer food waste at 38 HA hospitals (Note 19). Audit noted that the total post-consumer food waste had reduced from 6.23 tpd as revealed in the 2013-14 survey to 5.56 tpd as revealed in the July/August 2015 survey, representing an 11% reduction. The quantities of per-in-patient-per-day food waste of each of the 38 HA hospitals as revealed in the July/August 2015 survey are shown in Appendix E.

2.48 As shown in Appendix E, the per-in-patient-per-day food-waste quantities of the 38 HA hospitals ranged from 0.06 kg to 0.58 kg, with an average of 0.31 kg, revealing that some HA hospitals might have adopted good food-waste-reduction practices thereby achieving low food-waste generation. In Audit's view, the HA needs to implement similar measures as mentioned in paragraph 2.46.

Note 17: *According to the CSD, the relatively high quantity of 1.61 kg of the Pelican House (a half-way house) involved only two PICs. PICs in the halfway house were permitted to leave the house for day activities and might choose to consume their own food.*

Note 18: *The HA conducted a three-day survey in July/August 2015 in response to Audit's request.*

Note 19: *From April 2013 to August 2014, the HA was managing 37 hospitals. North Lantau Hospital commenced operation in September 2014.*

Audit recommendations

2.49 **Audit has *recommended* that the Commissioner of Correctional Services, in collaboration with the Director of Environmental Protection, should:**

- (a) **conduct a review of the CSD institutions having:**
 - (i) **relatively low per-PIC-per-day food-waste quantities with a view to identifying good practices; and**
 - (ii) **relatively high per-PIC-per-day food-waste quantities with a view to identifying areas for improvement;**
- (b) **conduct periodic surveys on food-waste quantities of individual CSD institutions; and**
- (c) **consider periodically publishing the per-PIC-per-day food-waste quantities of individual CSD institutions.**

2.50 **Audit has also *recommended* that the Chief Executive, Hospital Authority, in collaboration with the Director of Environmental Protection, should:**

- (a) **conduct a review of the HA hospitals having:**
 - (i) **relatively low per-in-patient-per-day food-waste quantities with a view to identifying good practices; and**
 - (ii) **relatively high per-in-patient-per-day food-waste quantities with a view to identifying areas for improvement; and**
- (b) **consider periodically publishing the per-in-patient-per-day food-waste quantities of individual HA hospitals.**

Response from the Government and the Hospital Authority

2.51 The Commissioner of Correctional Services agrees with the audit recommendations in paragraph 2.49.

2.52 The Chief Executive, Hospital Authority agrees with the audit recommendations in paragraph 2.50. He has said that:

- (a) for paragraph 2.50(a), the HA food-waste surveys have shown that the food-waste percentages of HA hospitals are on a decreasing trend. The HA will continue to identify good practices and areas for improvement with a view to further minimising food wastage; and
- (b) for paragraph 2.50(b), the HA will consider periodically publishing food-waste information of HA hospitals.

Food-waste reduction at schools

Meal-portioning arrangements at schools

2.53 According to the EPD, adopting green lunch practices in schools provides a unique education opportunity for students to learn first-hand about how to protect the environment, inculcates behavioural changes and spreads the positive message of environmental protection. In 2008 and 2010, the EPD conducted two surveys on lunch practices of all schools (referred to as the 2008 Survey and 2010 Survey respectively). According to the survey results and EPD's projection, around 100 tonnes of food waste were generated by students taking lunch at school every day. According to the EPD:

- (a) the 2008 Survey was conducted to assess the common lunch practices of students with a view to promulgating initiatives to promote green lunch, which included wider adoption of on-site meal portioning in schools and encouragement of more students to use reusable food containers and cutlery;

- (b) the EPD noted from results of the 2008 Survey that some schools might not be fully equipped to adopt on-site meal portioning due to various technical and physical constraints (such as schools not built with suitable venues to accommodate students for the practice). Therefore, the Government needed to provide assistance to these schools to overcome their difficulties; and
- (c) the 2010 Survey was conducted as a follow-up survey to collect updated information on green lunch practices of schools.

2.54 In October 2009, the Chief Executive of the Hong Kong Special Administrative Region said in his 2009-10 Policy Address that, to further reduce food waste and disposable lunch boxes:

- (a) the ENB and the EDB would jointly invite all schools to sign a Green Lunch Charter to encourage schools to stop using disposable containers and adopt on-site meal portioning where possible;
- (b) the ECF would provide a subsidy for schools to install the necessary equipment for adopting on-site meal portioning; and
- (c) the standard design of new schools would cater for on-site meal portioning.

2.55 According to the EPD's "Guideline on How to Promote Green Lunch in Schools" issued in August 2013 (Note 20), other than students bringing their own lunch provided by parents (which would avoid the use of disposable containers), there are three different types of meal-portioning arrangements for providing students with lunch at school, as follows:

- (a) *on-site meal portioning using reusable containers.* Under this arrangement, cooked food is delivered by lunch suppliers to schools in large containers which would be reheated before portioning to students on-site by using washable and reusable dining wares, including trays and cutlery (see Photograph 1). Hence, the quantity of food portioned can be

Note 20: *The Guideline was first issued in October 2007 and was subsequently updated and revised.*

Reduction in food waste

flexibly adjusted in response to different requests such that food waste can be reduced. Subject to the availability of suitable areas at individual schools, students may take lunch in a designated dining area (see Photograph 2) or in classrooms;

Photographs 1 and 2

Students taking lunch at school under on-site meal portioning

Photograph 1



Photograph 2



Source: EPD records

- (b) *off-site meal portioning using reusable containers.* Under this arrangement, cooked food is portioned and packed in reusable containers at the kitchens of lunch suppliers before delivering to schools for distribution to students; and
- (c) *off-site meal portioning using disposable containers.* Apart from using disposable containers (Note 21), this arrangement is similar to the one in (b) above.

From the waste reduction perspective, on-site meal portioning is the most desirable option. According to the 2009-10 Policy Address, schools were encouraged to stop using disposable containers and adopt on-site meal portioning where possible (see para. 2.54(a)).

Note 21: *Disposable containers are usually made of polypropylene, polyfoam, tin foil and paper.*

On-site meal portioning projects funded by the ECF

2.56 In September 2009 and March 2010, the ECF Committee (Note 22) approved allocation of \$50 million and \$100 million respectively to support schools to carry out conversion works and install facilities for adopting on-site meal portioning, including electrical and water installation, dining tables and chairs, and reusable lunch containers and cutlery. According to the EPD and the ECF guidelines:

- (a) a school interested in applying for ECF funding may request the ECF Secretariat (i.e. the EPD) to arrange for a site visit for conducting a preliminary assessment on the feasibility to adopt on-site meal portioning at the school (Note 23);
- (b) a school found being technically feasible for adopting on-site meal portioning may then submit a funding application. From December 2009 (commencement of accepting applications) to June 2015, \$149.88 million ECF funding had been approved for related projects carried out at 114 schools;
- (c) within two months from completion of the conversion and installation works, the school is required to submit to the EPD a works-completion report with details of the adoption of on-site meal portioning, including the number of students participating in the arrangement; and
- (d) the school is also required to adopt on-site meal portioning for at least 36 months after completion of the conversion and installation works.

Note 22: *The ECF Committee, established under the Environment and Conservation Fund Ordinance (Cap. 450) in 1994, comprises the chairman and not more than 8 members appointed by the Chief Executive of the Hong Kong Special Administrative Region and 4 ex-officio members from the ENB, the EPD, the EDB and the Agriculture, Fisheries and Conservation Department. The EPD provides secretariat and administrative support to the ECF Committee. Its terms of reference include vetting funding applications from local non-profit-making organisations, and advising the trustee of the ECF (i.e. the Secretary for the Environment) on the amount of fund to be allocated for each project.*

Note 23: *The EPD has appointed the Electrical and Mechanical Services Trading Fund to provide professional support to schools, such as conducting site visits to assess the feasibility of schools to adopt on-site meal portioning.*

Reduction in food waste

Green Lunch Charter

2.57 To further reduce waste, promote healthy living and inculcate the values of caring for the environment among students, in February 2010, the ENB and the EDB jointly invited all schools to sign the Green Lunch Charter. Signees of the Charter would endeavour to:

- (a) arrange students to use reusable food containers and cutlery; and
- (b) adopt on-site meal portioning in providing lunch to students.

2.58 According to the EPD, signing the Green Lunch Charter is voluntary in nature, and schools interested in installing on-site meal portioning facilities may seek funding support from the ECF irrespective of whether they have signed the Green Lunch Charter.

Areas for improvement

Some schools not adopting green lunch practice

2.59 According to the EPD, the benefits of adopting on-site meal portioning include:

- (a) avoiding using disposable containers and cutlery, hence reducing waste disposal at landfills; and
- (b) reducing food waste because the quantity of food served can be flexibly adjusted according to the need of individual students.

2.60 In June 2013, the ENB informed the FC that on-site meal portioning facilitated students to adjust the meal portion as they needed and to directly engage students to consciously make choices in reducing food wastage, which was estimated to be able to contribute to food waste reduction by up to 50%.

2.61 As of September 2014, there were 1,131 whole-day schools (comprising 562 primary, 509 secondary and 60 special schools), with a total of about 704,000 students in Hong Kong. Table 4 shows the numbers of schools having signed the Green Lunch Charter and those having been granted ECF funding for adopting on-site meal portioning as of June 2015.

Table 4
Number of whole-day schools
(June 2015)

Particulars	Government school (No.)	Subsidised school (Note 1) (No.)	Private school (Note 2) (No.)	Total (No.)
Total	63	920	148	1,131
Signed Green Lunch Charter	35 (56% of 63)	251 (27% of 920)	8 (5% of 148)	294 (26% of 1,131)
Granted ECF funding for adopting on-site meal portioning	Nil (Note 3)	114 (Total \$149.88 million of funding approved)	Nil (Note 4)	114

Source: Audit analysis of EDB and EPD records

Note 1: Subsidised schools mainly included aided schools and schools under the Direct Subsidy Scheme.

Note 2: Private schools included all international schools.

Note 3: Government schools may apply for funding from the minor building works block vote of the Architectural Services Department to carry out the necessary retrofitting works for adopting on-site meal portioning. As of June 2015, no government school had applied for funding for the purpose.

Note 4: The ECF Committee would consider applications from private schools on a case-by-case basis. As of June 2015, no private school had applied for funding for the purpose.

Reduction in food waste

2.62 According to the 2008 and the 2010 Surveys, the EPD estimated that some 550,000 whole-day school students took lunch at school (Note 24). The survey results are shown in Table 5.

Table 5
Results of 2008 and 2010 Surveys

Particulars	2008 Survey	2010 Survey
(a) Number of schools surveyed	1,202	1,123
(b) Number of schools responded	361 (30% of 1,202)	771 (69% of 1,123)
(c) Number of schools providing per-student-per-lunch food-waste quantities	88 (24% of 361)	157 (20% of 771)
(d) Percentage of students taking lunch at school:		
(i) provided by parents	25%	24%
(ii) through on-site meal portioning	9%	12%
(iii) through off-site meal portioning using reusable containers	17%	18%
(iv) through off-site meal portioning using disposable containers	49%	46%
Total	100%	100%

Source: Audit analysis of EPD records

Note 24: *According to the EPD, in the 2007/08 and 2009/10 school years, 33% of 819,000 students and 31% of 796,000 students in whole-day schools respectively took lunch outside schools.*

2.63 As shown in Table 5, for the 771 schools responding to the 2010 Survey, only 12% of students taking lunch at school took lunch through the on-site meal portioning arrangement. On the other hand, 46% of students taking lunch at school took lunch by using disposable containers. Audit noted that, as of June 2015, except the 114 subsidised schools adopting on-site meal portioning funded by the ECF (see Table 4 in para. 2.61), the EPD did not have information on the number of other schools adopting the on-site meal portioning arrangement. Furthermore, from January 2011 to August 2015, other than the 114 schools adopting on-site meal portioning funded by the ECF, the EPD had not conducted any survey on lunch practices of other whole-day schools.

2.64 In September and October 2015, the EPD informed Audit that:

- (a) from 2009 to 2014, according to works-completion reports (see 2.56(c)) submitted by the schools funded by the ECF, the EPD estimated that around 56,000 students had benefited from taking lunch at school through on-site meal portioning. In order to encourage schools to adopt the on-site meal portioning arrangement, in 2013, the EPD had introduced to the management of 740 subsidised schools about the ECF funding support for the purpose; and
- (b) after conducting site visits to some schools for assessing the feasibility of adopting on-site meal portioning, it was found that a number of schools had physical and technical constraints for carrying out the necessary conversion works for the arrangement. The constraints included lack of space, potential problems regarding electrical/water installation works and building works to convert an existing area (such as playground and multi-purpose areas) into a kitchen and a dining area.

Reduction in food waste

2.65 Audit noted that, from November 2009 to August 2015, the ECF had received a total of 277 requests from schools for carrying out site visits to assess the feasibility for them to adopt the on-site meal portioning practice, of which 163 (59%) schools had been assessed to be feasible for adopting the practice (Note 25). However, according to the EPD, it had not approached other schools to ascertain their technical and physical feasibility for adopting on-site meal portioning.

2.66 In Audit's view, the ENB/EPD need to periodically conduct surveys on lunch practices of all whole-day schools to obtain and publish the survey results, which provide a basis for the ENB/EPD in formulating strategies and action plans on encouraging more schools to adopt green lunch practice in future. The ENB/EPD also need to encourage schools to carry out assessments of their feasibility to adopt on-site meal portioning. In view of the benefits of reducing the generation of food waste and disposable lunch boxes which would be disposed of at landfills, Audit considers that the ENB/EPD need to strengthen efforts to encourage more schools to adopt the on-site meal portioning arrangement as far as possible. For schools which are assessed to be technically not feasible to adopt on-site meal portioning, the ENB/EPD need to encourage them to use reusable lunch boxes instead of disposable ones.

Lack of updated information on students taking lunch by using disposable containers

2.67 As shown in Table 5 in paragraph 2.62, in the 2010 Survey, 46% of students taking lunch in schools used disposable containers. According to the 2008 and the 2010 Surveys, the EPD estimated some 270,000 and 250,000 disposable food containers were respectively used at schools every day which were disposed of at landfills.

Note 25: *Regarding the 277 requests from schools for site visits:*

- (a) *for the 163 schools assessed to be feasible for adopting on-site meal portioning, 114 schools were approved with ECF funding, 42 schools had subsequently decided not to apply for ECF funding, 6 schools' applications were under processing and 1 school's application had been rejected by the ECF; and*
- (b) *for the remaining 114 schools (277 less 163 schools), 102 schools were found not feasible for adopting on-site meal portioning, 8 schools had decided not to continue the application and 4 schools' applications were under processing.*

2.68 In June 2010, the EPD informed the EA Panel that, with the establishment of the Green Lunch Charter and the support of funding from the ECF:

- (a) it had set targets to reduce the number of disposable lunch boxes by 20,000 per day by the 2011/12 school year and a further 40,000 per day by the 2012/13 school year; and
- (b) it would conduct surveys to ascertain the latest situation and review the above targets accordingly.

2.69 Based on the estimated daily 270,000 disposable lunch boxes used in 2008 (see para. 2.67), the estimated number of such lunch boxes used daily was expected to decrease to 250,000 in 2011/12 school year and 210,000 in 2012/13 school year. However, except the surveys conducted on 114 schools adopting on-site meal portioning funded by the ECF, the EPD had not conducted any survey on lunch practices of other whole-day schools from January 2011 to August 2015 (as of June 2015, there were 1,131 whole-day schools — see Table 4 in para. 2.61). Hence, the EPD could not make use of updated survey results and latest development to review the targets on the issue. Audit considers that the ENB/EPD need to take follow-up actions on this matter.

Need to take measures to reduce per-student-per-lunch food waste of some schools

2.70 As shown in Table 5 in paragraph 2.62, in the 2010 Survey, 157 schools (20% of 771 schools responded in the Survey) provided the EPD with per-student-per-lunch food-waste quantities. According to the survey results, the per-student-per-lunch food-waste quantities of:

- (a) 99 schools (63%) ranged from 0 kg to 0.04 kg;
- (b) 28 schools (18%) ranged from more than 0.04 kg to 0.08 kg;
- (c) 19 schools (12%) ranged from more than 0.08 kg to 0.12 kg;
- (d) 6 schools (4%) ranged from more than 0.12 kg to 0.16 kg; and
- (e) 5 schools (3%) ranged from more than 0.23 kg to 0.44 kg.

Reduction in food waste

2.71 As shown in paragraph 2.70, the per-student-per-lunch food-waste quantities of the 157 schools ranged from 0 kg to 0.44 kg, with an average of 0.04 kg. The survey results revealed that schools had varying degrees of success in reducing food waste. While many schools had achieved relatively low food-waste generation, some schools had room for improvement in food-waste reduction. The EPD needs to encourage those schools having high food-waste generation (such as the five schools generating 0.23 kg to 0.44 kg per-student-per-lunch of food waste — see para. 2.70(e) above) to implement enhanced food-waste-reduction measures.

2.72 In September and October 2015, the EPD informed Audit that:

- (a) limitations in the food-waste surveys might affect the accuracy of the survey results, and different choices of food consumed by students might produce different quantities of food waste; and
- (b) the per-student-per-lunch food-waste quantities of the majority (over 90%) of schools surveyed was between 0 kg to 0.16 kg, which was not on the high side, and some food waste was unavoidable (such as banana peels and chicken bones). There were practical difficulties in setting an objective benchmark on the quantities of food waste generated.

2.73 Audit noted that only 20% of schools responded in the 2010 Survey provided food-waste quantities, and the survey was conducted five years ago. In Audit's view, the ENB/EPD need to periodically conduct surveys of the schools (see para. 2.66), and based on statistics obtained from surveys, identify areas for improvement in reducing per-student-per-lunch food-waste quantities. To promote good practice, the ENB/EPD may consider extending some forms of commendation to schools showing good performance in terms of food-waste reduction, and publishing their per-student-per-lunch food-waste quantities and good practices in food-waste reduction, which may provide good guidance/models for other schools to follow. The ENB/EPD also need to consider issuing guidelines to schools on methodologies for measuring food-waste quantities, and encourage schools to provide quantities of food waste in surveys.

Some schools not providing required returns on food-waste quantities

2.74 As shown in Table 4 in paragraph 2.61, as of June 2015, 114 subsidised schools had been granted ECF funding for carrying out conversion works for adoption of on-site meal portioning. Before July 2011, the EPD had requested the ECF-funded schools to provide on a voluntary basis returns about their lunch practices, including the quantities of food waste before and after adopting on-site meal portioning. From July 2011 onwards, as a condition of receiving funding from the ECF stated in the approval letter, before installation of related facilities, the schools needed to submit returns to the EPD on food-waste quantities. They also needed to submit returns on food-waste quantities after adopting on-site meal portioning.

2.75 As of June 2015, of the 114 schools, related conversion works at 105 schools (92%) had been completed. Of these 105 schools, the ECF had approved funding to 73 schools before July 2011 and to 32 schools in or after July 2011. Details of returns submitted by the 105 schools are shown in Table 6.

Table 6

**Returns on food-waste quantities from
105 schools receiving ECF funding
(June 2015)**

Information provided by schools on food-waste quantities	Schools receiving ECF funding		
	Approved before July 2011 (No.)	Approved in or after July 2011 (No.)	Total (No.)
(a) Both before and after adopting on-site meal portioning	29	5	34
(b) Only after adopting on-site meal portioning	33	3	36
(c) Only before adopting on-site meal portioning	3	9	12
(d) No related information provided	8	15	23
Total	73	32	105

Source: *Audit analysis of EPD records*

Reduction in food waste

The ENB/EPD need to take follow-up actions on schools receiving ECF funding but not submitting the required returns.

2.76 Moreover, Audit noted that:

- (a) for the 70 schools providing food-waste quantities after adopting on-site meal portioning (see items (a) and (b) of Table 6), the quantities of per-student-per-lunch food waste after adopting the practice ranged from 0 kg to 0.18 kg; and
- (b) for the 34 schools providing food-waste quantities both before and after adopting on-site meal portioning (see item (a) of Table 6), the quantities of per-student-per-lunch food waste after adopting the practice ranged from 0 kg to 0.15 kg. The 34 schools achieved a total of 0.8 tpd of food-waste reduction, and 0.05 kg of per-student-per-lunch food-waste reduction after adopting on-site meal portioning.

2.77 According to the ECF's "Guide to Application — On-site Meal Portioning Projects in Schools", a school receiving ECF funding is required to grant unconditionally and irrevocably to the Government the right to publish the results of adopting on-site meal portioning. Audit considers that, in order to promote adoption of on-site meal portioning, the ENB/EPD need to consider publishing the per-student-per-lunch food-waste quantities of the schools before and after adopting on-site meal portioning and their good practices in food-waste reduction.

Need to assess effectiveness of EPD actions to promote green lunch practices

2.78 From February 2010 to June 2015, 294 schools (26% of total 1,131 whole-day schools) had signed the Green Lunch Charter (see Table 4 in para. 2.61). However, the ENB and the EDB had not evaluated the signees' performance in practising green lunch. The EPD also had not evaluated the effectiveness of its actions to promote green lunch practices. Given that adopting green lunch practices can inculcate behavioural changes and spread the positive message of environmental protection to students (see para. 2.53), the EPD needs to take follow-up actions in these areas.

Some new schools not adopting on-site meal portioning

2.79 According to the EDB:

- (a) when planning for the construction of a new school, the EDB would conduct formal discussion with the school management or the school-sponsoring body about the standard provision of school facilities (including on-site meal portioning facilities — Note 26); and
- (b) before seeking funding approval from LegCo for the construction works of a new school to be built by the Government, the EDB would provide the school management with a set of the general layout plans for each floor of the school premises for comments and agreement.

2.80 In March 2010, the ENB informed LegCo that on-site meal portioning facilities would become standard facilities of newly built schools, and that seven schools under construction and due for completion between February 2011 and February 2012 would be installed with such facilities.

2.81 As of June 2015, six new schools (Note 27) with construction works completed from July 2011 to October 2012 had been installed with on-site meal-portioning facilities. However, Audit noted that four (67%) of the six schools had not adopted on-site meal portioning. According to the EDB, it had not ascertained the reasons of the four schools for not adopting on-site meal portioning. Audit considers that the EDB needs to take follow-up actions on the issue.

Note 26: *According to the EDB, the necessary fittings for implementing on-site meal portioning (such as wash basins and power supply) would be provided in the tuck-shop-cum-central-portioning area. The furniture and equipment (such as heaters and cookers) would be procured by the schools as appropriate upon completion of the new school premises.*

Note 27: *According to the EDB, of the seven schools mentioned to LegCo in March 2010 (see para. 2.80), owing to technical constraints, two schools were eventually only partially installed with on-site meal portioning facilities in their new school premises. Another school not having been confirmed in March 2010 as technically feasible for installing on-site meal portioning facilities was subsequently installed with such facilities. Therefore, a total of six new schools were installed with the facilities.*

Reduction in food waste

2.82 In October 2015, the EDB informed Audit that:

- (a) lunch arrangement in schools was affected by various factors, such as the number of students staying at schools for lunch, physical area of the canteen and stakeholders' views; and
- (b) some schools might have genuine difficulties in practising on-site meal portioning.

2.83 As stated in the 2009-10 Policy Address, the standard design of new schools would cater for on-site meal portioning (see para. 2.54(c)). Audit considers it unsatisfactory that, notwithstanding on-site meal portioning facilities had been provided at the four schools at additional costs, the four schools did not make use of the facilities after school commissioning, and the EDB had not taken follow-up actions. In Audit's view, the EDB, in collaboration with the ENB/EPD, needs to liaise with the four schools with a view to providing necessary assistance for them to adopt on-site meal portioning as far as practicable. The ENB/EPD and the EDB need to take measures to ensure that all new schools installed with related facilities adopt on-site meal portioning.

Early actions needed to release surplus fund from completed ECF projects

2.84 As of June 2015, of the \$150 million earmarked for supporting on-site meal portioning projects, the ECF had approved a total of \$149.88 million for financing 114 projects (see para. 2.56(b)). Audit noted that, as of June 2015, other six applications for funding totalling \$8.9 million had been submitted and awaiting the ECF Committee's approval. Of the six applications:

- (a) three applications with a total applied funding of \$4.6 million (submitted from March to June 2015) were under assessment; and
- (b) for three applications with a total applied funding of \$4.3 million (submitted in 2010 and 2011), the EPD was awaiting further information on students' dining places from the three schools.

2.85 Furthermore, as of June 2015, of the 114 approved projects, 105 had been completed. Of these 105 projects, the accounts of 2 had been finalised, which indicated that the amounts of funding approved were in excess of the actual expenditures. The excess fund had been released for financing other projects. Regarding the remaining 103 projects, Audit noted that many had been completed for a long time and that there were substantial excess amounts of approved funding over the up-to-date expenditures. However, their accounts had not been finalised and thus the excess fund could not be released to finance other projects (see Table 7).

Table 7
Completed ECF projects with accounts not yet finalised
(June 2015)

Period from project completion date to June 2015	Projects (No.)	Total excess amount of approved funding over up-to-date expenditure (\$ million)
8 months to 1 year	7	2
More than 1 year to 2 years	7	2
More than 2 years to 3 years	18	7
More than 3 years to 4 years	33	9
More than 4 years to 5 years and 1 month	38	10
Total	103	30

Source: Audit analysis of EPD records

Reduction in food waste

2.86 Of the 103 projects, 100 were carried out by the Electrical and Mechanical Services Trading Fund (EMSTF — Note 28) and the remaining 3 by school-appointed contractors. Audit noted that:

- (a) under the agreement between the EPD and the EMSTF, the EMSTF needed to provide quarterly summaries on the financial status and progress of the related works to the EPD. According to the quarterly summary as of June 2015 provided by the EMSTF, for the 100 projects, the excess amounts of approved funding over total contract costs aggregated \$27 million; and
- (b) according to the ECF funding requirement, schools employing contractors other than the EMSTF needed to submit audited statements of accounts within two months of completion of projects for the ECF Committee's endorsement. As of June 2015, the three schools employing other contractors had submitted the audited statements of accounts, but the EPD had yet to submit the accounts to the ECF Committee for endorsement.

2.87 In Audit's view, the ENB/EPD need to expedite actions to finalise the accounts of completed projects, so that excess amounts of approved funding over actual expenditures can be released to finance other qualified projects.

Audit recommendations

2.88 **Audit has recommended that the Secretary for the Environment and the Director of Environmental Protection, in collaboration with the Secretary for Education, should:**

- (a) **consider periodically conducting surveys on lunch practices of all whole-day schools with a view to obtaining and publishing pertinent statistics;**

Note 28: *The EMSTF was set up in August 1996 under the Trading Funds Ordinance (Cap. 430) to manage and account for the operation of certain services of the Electrical and Mechanical Services Department. The services provided by the EMSTF include operation and maintenance of electrical, mechanical, electronic and building services systems and equipment.*

- (b) based on survey results in (a), conduct a review of the schools with a view to identifying areas for improvement in reducing per-student-per-lunch food-waste quantities;
- (c) encourage schools to carry out assessments of their feasibility to adopt on-site meal portioning;
- (d) for schools which are assessed to be technically feasible to adopt on-site meal portioning, encourage them to adopt the arrangement as far as possible;
- (e) for schools which are assessed to be technically not feasible to adopt on-site meal portioning, encourage them to use reusable lunch boxes instead of disposable ones;
- (f) review the targets on reduction of using disposable lunch boxes at schools;
- (g) consider extending some forms of commendation to schools showing good performance in terms of food-waste reduction, and publishing their per-student-per-lunch food-waste quantities and good practices in food-waste reduction;
- (h) consider issuing guidelines to schools on methodologies of measuring food-waste quantities;
- (i) encourage schools to provide quantities of food waste in surveys; and
- (j) explore ways and means to evaluate the effectiveness of EPD actions to promote green lunch practices, including the Green Lunch Charter.

Reduction in food waste

2.89 **Audit has also *recommended* that the Secretary for the Environment and the Director of Environmental Protection should, in managing on-site meal portioning projects funded by the ECF:**

- (a) **take follow-up actions on schools not submitting returns on quantities of food waste generated before and after adopting on-site meal portioning;**
- (b) **consider publishing the per-student-per-lunch food-waste quantities of the schools before and after adopting on-site meal portioning and their good practices in food-waste reduction; and**
- (c) **expedite actions to finalise the accounts of completed projects.**

2.90 **Audit has also *recommended* that the Secretary for Education, in collaboration with the Secretary for the Environment and the Director of Environmental Protection, should:**

- (a) **take actions to ascertain the reasons of the four new schools installed with on-site meal portioning facilities not adopting on-site meal portioning, and provide necessary assistance for them to adopt the meal arrangement as far as practicable; and**
- (b) **take measures to ensure that all new schools installed with related facilities adopt on-site meal portioning.**

Response from the Government

2.91 **The Secretary for the Environment and the Director of Environmental Protection agree with the audit recommendations in paragraphs 2.88 to 2.90. The Director of Environmental Protection has said that:**

- (a) **for paragraph 2.88, the ENB/EPD, in collaboration with the EDB, will:**

- (i) consider conducting periodic surveys to obtain information on lunch practices at school, including the use of disposable lunch boxes and food-waste quantities, and providing methodologies for measuring food-waste quantities. They will also review the targets on reduction of using disposable lunch boxes at school;
 - (ii) further promote green lunch practices among schools. To maximise the publicity effect, the EPD will consider further promoting green lunch practices in schools through the FW Campaign;
 - (iii) further strengthen efforts to encourage schools to adopt green lunch practices including reviewing the relevant guidelines and circulars and commending schools with good performance; and
 - (iv) explore ways to encourage schools to submit returns on food-waste-reduction quantities through enhanced communications with schools, and consider publishing the good practices in food-waste reduction;
- (b) for paragraph 2.89(a), as the submission of returns from schools is an on-going exercise, the EPD expects that more returns will be received in the coming new school term. For those schools which had already implemented on-site meal portioning, they might not have maintained data on food-waste quantities before implementing the practice. Nevertheless, the EPD will endeavour to invite the schools to find out the food-waste quantities from their past records as far as possible;
- (c) for paragraph 2.89(b), the EPD will work out arrangements for publishing the per-student-per-lunch food-waste quantities of the schools before and after adopting on-site meal portioning and their good practices in food-waste reduction through an appropriate channel; and
- (d) for paragraph 2.89(c), the EPD will expedite actions to finalise the accounts of completed projects.

Reduction in food waste

2.92 The Secretary for Education agrees with the audit recommendations in paragraph 2.90. He has said that:

- (a) for paragraph 2.90(a), the EDB will take follow-up actions to ascertain the reasons of the four schools concerned for not adopting on-site meal portioning and, in collaboration with the ENB/EPD, provide assistance to the four schools concerned to adopt on-site meal portioning as far as practicable;
- (b) for paragraph 2.90(b), the EDB, in collaboration with the ENB/EPD, will take measures to require all new schools installed with related facilities to adopt on-site meal portioning unless there are exceptional circumstances with justifiable reasons;
- (c) for audit recommendations in paragraph 2.88, the EDB will continue to facilitate and work in collaboration with the ENB/EPD to implement the recommendations to further promote food-waste reduction at schools; and
- (d) for the implementation of audit recommendations in paragraph 2.88(a), (b), (f) and (h), the EDB will provide assistance to the ENB/EPD when and where necessary.

PART 3: RECYCLING OF FOOD WASTE

3.1 This PART examines actions taken by the ENB, the EPD and the HD in recycling food waste, focusing on:

- (a) food-waste recycling at Kowloon Bay Pilot Composting Plant (see paras. 3.6 to 3.14);
- (b) food-waste recycling at OWTFs (see paras. 3.15 to 3.41);
- (c) food-waste recycling in public rental housing (PRH) estates (see paras. 3.42 to 3.52); and
- (d) food-waste recycling in private housing estates (see paras. 3.53 to 3.68).

3.2 With a view to achieving the Government's target to reduce food-waste disposal at landfills by 40% by 2022, using 2011 as the base year, the 2014 Food Waste Plan promulgated four measures for increasing food-waste recycling (see Table 8).

Recycling of food waste

Table 8

Projected food-waste recycling quantities by 2022

Particulars	Projected food-waste recycling quantity		
	Domestic sector (tpd)	C&I sector (tpd)	Total (tpd)
Food-waste recycling measures (see Figure 2 in para. 1.13)			
Private facilities at EcoPark by end 2015 (see para. 3.3)	—	100	100 (about 3% of 3,600 tpd)
OWTF Phase 1 by mid-2016 (see paras. 3.15 to 3.41)	—	200	200 (about 6% of 3,600 tpd)
OWTF Phase 2 by end 2018 (see paras. 4.6 to 4.12)	—	300	300 (about 8% of 3,600 tpd)
OWTF Phase 3 by early 2021 (see paras. 4.6 to 4.12)	208	92	300 (about 8% of 3,600 tpd) (Note)
Total	208	692	900
Food-waste quantity disposed of at landfills in 2011 (base year)	2,500	1,100	3,600

Source: Audit analysis of EPD records

Note: The quantities of food waste generated from the domestic and C&I sectors targeted for treatment at OWTF Phase 3 are estimated by Audit based on the corresponding proportion of food waste being disposed of at landfills in 2011. According to the EPD, these quantities are subject to detailed studies and investigations.

3.3 In October 2012, the EPD entered into a tenancy agreement with a private operator for leasing a land lot occupying an area of 8,500 square metres at EcoPark for recycling food waste at a monthly rent of \$180,000. Under the tenancy agreement, the operator was expected to treat a minimum of 2,800 tonnes of food waste a month, or 93 tpd of food waste. The operation commenced in May 2015.

3.4 For the purpose of educating the C&I sector to practise food-waste reduction and source separation and preparing for large-scale food-waste recycling through the implementation of OWTF Phases 1 to 3 (see paras. 3.15 to 3.41), the ENB/EPD constructed the Kowloon Bay Pilot Composting Plant (works completed in August 2008) for treating food waste (0.88 tpd in 2014), and launched in June 2010 the Food Waste Recycling Partnership Scheme (see paras. 3.6 to 3.14). In addition, at end 2012, the HD implemented trial schemes on food-waste recycling in phases using its resources in 14 PRH estates under a community environmental educational programme. The 14 PRH estates participated in the schemes on average provided a total of 1.6 tpd of food waste from January 2013 to July 2014 (see paras. 3.42 to 3.52).

3.5 Moreover, in February 2011, the ECF Committee endorsed the provision of \$50 million to finance a scheme on supporting food-waste recycling projects in private housing estates. The objectives of the scheme were to promote food-waste reduction and source separation and recycling in the domestic sector, to try out the logistics in the collection and recycling of food waste for future reference and to engender behavioural changes of the participating households. The 16 private housing estates participated in the scheme on average provided a total of 0.7 tpd of food waste from September 2012 to June 2015 (see paras. 3.53 to 3.68).

Food-waste recycling at Kowloon Bay Pilot Composting Plant

3.6 In June 2006, the EPD appointed a consultant (the 2006 Consultancy Study) to design, develop and conduct trials at the Kowloon Bay Pilot Composting Plant (the Pilot Plant) for biological treatment of source-separated biodegradable waste, and to formulate and evaluate the requirements for the development of large-scale biological treatment facilities in Hong Kong. In June 2008, the EPD informed the ACE that, in order to gather useful information and local experience on collection and treatment of food waste, and to evaluate the quality, market

Recycling of food waste

potential and applicability of compost products, the EPD would develop the Pilot Plant with a treatment capacity of about 4 tpd of source-separated food waste from C&I establishments, which would produce compost as a by-product.

3.7 In August 2008, the construction of the Pilot Plant was completed at a total cost of \$16.2 million and the EPD consultant (see para. 3.6) commenced operation of the plant. In April 2009 and March 2010, the EPD informed the EA Panel that the Pilot Plant would be capable of receiving up to 4 tpd of source-separated food waste from C&I premises. In September 2009, the EPD engaged the EMSTF to operate the Pilot Plant, and the EMSTF took over the operation in April 2010 through its contractor. In 2014-15, the operation fee was \$2.87 million.

3.8 In June 2010, the EPD launched the Food Waste Recycling Partnership Scheme (the Partnership Scheme) in collaboration with the C&I sector to provide training to managerial and front-line staff of participating premises on good food-waste management practices, aiming to cultivate and sustain behavioural changes in the C&I sector on food-waste reduction and source separation of food waste. Participating premises would carry out food-waste separation at source, and the EMSTF contractor would collect and deliver the food waste to the Pilot Plant for recycling. Under the Partnership Scheme, the EPD invited the C&I premises to practise source-separation of food waste each for two to nine months. From the commencement of the Partnership Scheme in June 2010 to July 2015, a total of 189 C&I premises had participated in the Scheme. According to the EPD, the participating C&I premises and their front-line staff had become familiar with the practices of collection and source-separation of food waste.

Areas for improvement

Actual treatment quantity of Pilot Plant significantly lower than that reported to LegCo and ACE

3.9 From 2008 to 2010, the EPD had informed the ACE and the EA Panel that the Pilot Plant would treat/receive up to 4 tpd of food waste (see paras. 3.6 and 3.7). However, Audit noted that, from August 2008 to June 2015, the average quantity of food waste treated at the plant was only 0.89 tpd (see Table 9), representing only 22% of the 4-tpd capacity reported to the ACE and the EA Panel.

Table 9

**Actual food-waste treatment quantity of Pilot Plant
(August 2008 to June 2015)**

Year	Quantity of food waste treated	
	Total (tonnes)	Daily average (tpd)
2008 (Aug. to Dec.)	43	0.28
2009	224	0.61
2010	367 (see para. 3.10(a))	1.01
2011	561	1.54
2012	288	0.79
2013	315	0.86
2014	322	0.88
2015 (Jan. to Jun.)	118	0.65
Overall	2,238	0.89

Source: Audit analysis of EPD records

3.10 In May 2013, in response to a LegCo Member’s enquiry, the ENB informed LegCo that the quantity of food waste recycled in the Pilot Plant in 2010 was 278 tonnes. In July, September and October 2015, the EPD informed Audit that:

- (a) the 367 tonnes of food waste treated in 2010 comprised 89 tonnes collected from January to May 2010 for testing and commissioning of the Pilot Plant and 278 tonnes from June to December 2010. In this connection, the Partnership Scheme was launched in June 2010 (see para. 3.8). As the LegCo Member asked for the Government’s action to mobilise the public and the C&I sector to reduce food waste, the 89 tonnes of food waste collected from January to May 2010 for testing and commissioning were not included in the quantity reported to LegCo in May 2013;

Recycling of food waste

- (b) the 4-tpd of source-separated food waste from C&I premises as stated in the ACE and EA Panel papers (see paras. 3.6 and 3.7) was referring to the total quantity of organic waste (including food waste, bulking agents (e.g. bark chips and saw dust) and premature compost) putting into the Pilot Plant. The addition of bulking agents and premature compost was required to achieve the optimal composting of food waste. As the term “organic waste” was less well-understood generally and less well-defined at that time because of limited experience, a layman term “food waste” was used instead in the papers to better reflect the main focus of the pilot project. The contract between the EMSTF and its contractor (see para. 3.7) also specified that the total treatment capacity of the Pilot Plant was 4 tpd (including bulking agents); and

- (c) participation by C&I premises in the Partnership Scheme was on a voluntary basis. The factors affecting the actual quantity of food waste delivered to the Pilot Plant included the business nature of the C&I premises, the quantity of food waste that could be source-separated, and their daily operations and resources for practising source separation. Therefore, the quantity of food waste delivered to the Pilot Plant would vary among different C&I premises and even vary from day to day for the same premises.

3.11 In Audit’s view, in informing LegCo and the ACE from 2008 to 2010 (see paras. 3.6 and 3.7) that the Pilot Plant would treat/receive up to 4 tpd of food waste, this quantity of food waste could be perceived as the net quantity of food waste to be treated a day. If the 4 tpd of food waste had included bulking agents and other non-food-waste materials (e.g. premature compost), the EPD should have clearly stated the related quantities in providing the related information to LegCo and the ACE. The ENB/EPD need to make improvement in this area.

Low utilisation of food-waste recycling facility

3.12 In September 2015, the EPD informed Audit that the total treatment capacity of the Pilot Plant was about 500 tonnes of food waste per year (i.e. 1.37 tpd), and that the Pilot Plant would provide sufficient capacity for handling the fluctuating quantities of food waste collected from the C&I sector.

However, the average quantity of food waste treated was 0.65 tpd in the first half of 2015 (see Table 9 in para. 3.9), representing only 47% of the treatment capacity of 1.37 tpd of the Pilot Plant. In order to fully utilise the treatment capacity of the Pilot Plant and to inculcate behavioural changes in the C&I sector on food-waste reduction and source separation of food waste, the ENB/EPD need to strengthen efforts to encourage more C&I premises to participate in the Partnership Scheme.

Audit recommendations

3.13 **Audit has recommended that the Secretary for the Environment and the Director of Environmental Protection should:**

- (a) **take measures to provide clear, relevant and important information to LegCo and the ACE in future; and**
- (b) **strengthen efforts to encourage more C&I premises to participate in the Food Waste Recycling Partnership Scheme.**

Response from the Government

3.14 The Secretary for the Environment and the Director of Environmental Protection agree with the audit recommendations.

Food-waste recycling at organic waste treatment facilities

3.15 The 2013 Blueprint set targets to reduce the per-capita-per-day MSW disposal rate from 1.27 kg in 2011 to 1 kg or below by 2017, and further to 0.8 kg or below by 2022. Under the 2013 Blueprint, modern large-scale OWTFs would be developed in phases, with the first two phases set out as follows:

- (a) OWTF Phase 1 for commissioning by 2016, which would treat 200 tpd of food waste (or 73,000 tonnes per year); and
- (b) OWTF Phase 2 for commissioning by 2017, which would treat 300 tpd of food waste (or 109,500 tonnes per year).

Recycling of food waste

3.16 OWTFs adopt the anaerobic-digestion technology for treating food waste where micro-organisms would decompose organic matter and generate biogas (a renewable energy similar to natural gas) and a residue that can be processed for use as compost or fertiliser. The energy produced can be used to run the OWTFs and surplus energy can be directed for other uses. Under the 2014 Food Waste Plan, the ENB further elaborated its plan to develop OWTFs by phases (see Table 10).

Table 10

Proposed OWTFs under 2014 Food Waste Plan

OWTF Phase	Location	Planned food-waste treatment capacity	Projected commissioning date
1	Siu Ho Wan in North Lantau	200 tpd (73,000 tonnes per year)	Mid-2016
2	Sha Ling in Sheung Shui	300 tpd (109,500 tonnes per year)	End 2018
3	Shek Kong in Yuen Long	300 tpd (109,500 tonnes per year)	Early 2021
4 and 5	To be determined	Total capacity of 500 tpd (182,500 tonnes per year)	Beyond 2022

Source: Audit analysis of EPD records

3.17 In September 2015, the EPD informed Audit that the updated estimated commissioning dates of OWTF Phases 1, 2 and 3 were mid-2017, 2020 and 2022 respectively.

OWTF Phase 1

3.18 In August 2008, the EPD appointed a consultant (Consultant A) at a lump-sum price of \$6.2 million for carrying out engineering feasibility study, project cost estimation, environmental impact assessment (EIA) study and tendering for appointing a contractor for OWTF Phase 1. In October 2014, the FC approved funding of \$1,589.2 million (in money-of-the-day (MOD — Note 29) prices — see Appendix F for the cost breakdown information) for the design and construction of OWTF Phase 1, which was targeted for commissioning in mid-2017.

3.19 After conducting open tendering in early 2013, in December 2014, the EPD awarded a design-build-operate contract (Contract A) at a total cost of \$2,380.6 million to a contractor (Contractor A) for carrying out the detailed design, construction works and operating OWTF Phase 1 for 15 years after completion of the construction works. The total contract cost of \$2,380.6 million included annual operation fees to be funded under the General Revenue Account. Under Contract A, the works commenced in December 2014 and were scheduled for completion in March 2017.

Areas for improvement

Significant under-estimation of project cost of OWTF Phase 1 in 2010

3.20 According to the project profile of OWTF Phase 1 published in October 2007 under the EIA Ordinance (Cap. 499 — Note 30), the tendering for the project was planned to commence in July 2010 with a view to commissioning the facility in March 2013. In July 2010, the EPD informed the ENB that:

Note 29: *MOD prices of a works project indicate the estimated cost of the project after adjusting for forecast inflationary increases in construction prices during the period up to the completion of construction works.*

Note 30: *An OWTF is a designated project under the EIA Ordinance, and a person who wishes to carry out a designated project needs to submit a project profile to the Director of Environmental Protection for issuing an EIA study brief. Thereafter, he needs to prepare an EIA report based on the EIA study brief for submission to the Director for approval, and to obtain an environmental permit before constructing or operating the project. The EPD has set up a separate division to handle matters related to the EIA Ordinance.*

Recycling of food waste

- (a) the parallel-tendering approach (Note 31) was a fast-track mode which would help commission OWTF Phase 1 by 2013 and enable the Government to obtain a realistic cost estimate for the facility; and
- (b) by adopting the parallel-tendering approach, the risk to the Government of aborting the tender exercise due to lack of funding was low.

In August 2010, the ENB approved the EPD's proposal to adopt the parallel-tendering approach.

3.21 From October to December 2010, with the approval of the Permanent Secretary for Financial Services and the Treasury (Treasury) on the advice of the Central Tender Board (Note 32), the EPD openly invited interested contractors to participate in a prequalification exercise for selecting the best three contractors (having suitable experience, adequate resources and capability) to submit tenders for the project.

3.22 In November 2010, the EPD informed the EA Panel that:

- (a) the estimated cost of the project was \$489 million (in MOD prices), and that the EPD would finalise the cost estimate based on the tender prices received and compile a cost breakdown prior to submitting the proposal to the Public Works Subcommittee (PWSC) of LegCo for consideration; and
- (b) the EPD planned to proceed with the tendering for the project before seeking funding approval from the FC with a view to completing OWTF Phase 1 by 2014.

Note 31: *According to Financial Circular No. 2/2009 "Initiating Works-related Tendering and Consultants Selection Procedures Before Funding is Secured" issued in January 2009, Directors of Bureaux may allow tenders for works projects to be invited before funding is secured, without separate approval from the FSTB.*

Note 32: *The Central Tender Board comprises the chairman (the Permanent Secretary for Financial Services and the Treasury (Treasury)) and four members to consider tender matters and make recommendation on acceptance of tenders.*

3.23 In June 2011, the EPD, with the assistance of Consultant A, invited prequalified tenderers to submit tenders for the project (2011 Tender Exercise). In March 2012, after assessments of tenders received in November 2011, the EPD found that the price of the lowest tender was significantly higher than the Government's earmarked funding for the proposed works. In the same month, the EPD informed the Central Tender Board that:

- (a) the funding earmarked for the project was based on the cost estimate made in late 2009; and
- (b) the tender prices received were unreasonably high when compared with updated estimates (Note 33) and the project cost could be reduced by introducing some cost-reduction measures, including extending the design and construction period from 730 days to 920 days, introducing more milestone payments to reduce the contractor's finance cost, and introducing a guaranteed food waste tonnage of 50 tpd (i.e. 18,250 tonnes per year) to reduce the risk of waste-quantity uncertainty faced by the contractor.

The Central Tender Board approved the EPD's proposal to cancel the 2011 Tender Exercise in the public interest.

3.24 In June 2012, in response to the FSTB's enquiry, the EPD said that:

- (a) the EPD's project team had been working under a very tight programme to finalise the tender documents for tender invitation in June 2011, and it was impracticable to come up with a revised cost estimate at that time;
- (b) the cost review carried out by the project team before tender closing date in November 2011 indicated that the capital cost of the proposed works would be substantially increased to approximately \$1,100 million such that the originally earmarked funding would not be adequate to cover the capital cost; and

Note 33: *In October 2015, the EPD informed Audit that the updated estimates had been worked out based on the latest market prices and condition at that time.*

Recycling of food waste

- (c) given the sharp rising trends in the construction-cost indices and the lack of local reference for similar facilities, the EPD had decided to wait for the completion of the tender assessment in March 2012 when a definitive project cost estimate could be made available before seeking approval to increase the amount of earmarked funding for the proposed works.

3.25 In July 2012, after consulting the EPD's legal adviser, the EPD instructed Consultant A to carry out additional services relating to a re-tender exercise for the project at a lump-sum fee of \$1.8 million, and the EPD added a provision in the consultancy agreement that the proposed additional services to be undertaken by Consultant A would not release Consultant A from any liability to the Government relating to the consultancy work for OWTF Phase 1.

3.26 In February 2013, the EPD, with the assistance of Consultant A, commenced a re-tender exercise for the project through open tendering. Three tenders were received by the tender closing date in July 2013. In December 2014, Contract A was awarded to Contractor A (see para. 3.19).

3.27 On 13 March 2014, the ENB/EPD informed the EA Panel that the capital cost of the proposed works for OWTF Phase 1 was estimated at \$1,532.8 million (in MOD prices — Note 34). The ENB/EPD also informed the EA Panel that the initial estimate of \$489 million (in MOD prices) presented in the EA Panel paper of November 2010 (see para. 3.22(a)) was an indicative figure based on an initial, broad-brush scheme, and the main reasons for the differences between the latest project cost and the initial indicative estimate included:

- (a) since 2010, there had been significant increases in the costs of capital works projects. For instance, the Building Services Tender Price Index had increased by over 65% in the previous few years;

Note 34: *Partly due to an increase in the price level, the project cost approved by the FC in October 2014 was \$1,589.2 million (see para. 3.18).*

- (b) during the detailed designs, additional provisions were identified for providing a sufficient and robust treatment capacity to meet the service-level requirements for continuous 24-hour operation of the facility in normal and anticipated circumstances of scheduled maintenance, overhauls, variation in quality of incoming food waste, and inclement weather conditions. These requirements included the provision of pre-treatment facilities to render the food waste suitable for anaerobic digestion, enhanced waste-water treatment requirements, and increased waste treatment and office-floor areas to meet operational requirements;
- (c) after conducting a detailed site condition study, natural terrain and slope protection cum mitigation works had been proposed. Additional environmental mitigation and monitoring measures had also been identified for implementing the recommendations stated in the EIA study;
- (d) design of the combined heat and power generators and associated control system for export of surplus electricity could only be finalised after the quantity of surplus electricity available for export had been ascertained in the detailed design of the treatment facility; and
- (e) consultants' fees for contract administration and remuneration of resident site staff were later found to be required.

3.28 Regarding the ENB/EPD's reasons for the differences between the initial indicative estimate of \$489 million (in MOD prices) reported to the EA Panel in November 2010 and the project estimate of \$1,532.8 million (in MOD prices) reported to the EA Panel in March 2014, representing a 213% increase, Audit examination revealed that:

- (a) for paragraph 3.27(a), in October 2015, the EPD informed Audit that the project cost of \$489 million reported to the EA Panel in November 2010 had been based on the price level in the second quarter of 2010, and the \$1,532.8 million reported in March 2014 had been based on the price level in the second quarter of 2013. The increases in the related price indices from the second quarter of 2010 to the second quarter of 2013 were:

Recycling of food waste

- (i) the Building Services Tender Price Index (compiled by the Architectural Services Department) had increased from 135 to 230 (representing a 70% increase);
 - (ii) the Building Works Tender Price Index (compiled by the Architectural Services Department) had increased from 1,161 to 1,532 (representing a 32% increase); and
 - (iii) the Civil Engineering Works Index (compiled by the Civil Engineering and Development Department) had increased from 482.4 to 575.0 (representing a 19% increase);
- (b) for paragraph 3.27(b), the EPD had engaged Consultant A at a lump-sum price of \$6.2 million to carry out the engineering feasibility study, the project cost estimation, the EIA study and tendering for appointing a contractor for OWTF Phase 1. In this connection, the EIA report prepared by Consultant A in December 2009 and approved by the EPD in February 2010 had already indicated that OWTF Phase 1 would be operated on a 24-hour daily basis, and pre-treatment and waste-water treatment facilities would be provided. The costs associated with these arrangements should have been included in the project estimate of \$489 million. As approved by the FC in October 2014, the estimated costs of the pre-treatment system and waste-water treatment system were \$56.2 million and \$50.7 million respectively (in September 2014 prices — see items 3(b) and 5 in Appendix F);
- (c) for paragraph 3.27(c), in November 2006, the Civil Engineering and Development Department requested that a natural terrain hazard study should be conducted for the project, but the EPD had not included this work in the consultancy agreement entered into with Consultant A in August 2008. In September 2011, the EPD requested Consultant A to carry out the study at an additional cost of \$0.8 million. According to the EPD, the cost of the required slope mitigation works was \$66.7 million, which should have been included in the project estimate of \$489 million. Audit considers that the EPD needs to take measures to prevent recurrence of such an omission in future;

- (d) for paragraph 3.27(d), OWTF Phase 1 is a waste-to-energy facility and the EPD informed EA Panel in November 2010 that up to 28 million kilowatt-hour (kWh) of surplus electricity could be exported every year that would be adequate for use by 3,000 households (Note 35). Therefore, the cost of providing the power generators and associated control system should have been included in the project estimate of \$489 million. As approved by the FC in October 2014, the estimated cost of the facility was \$105.3 million (in September 2014 prices — see item 6 in Appendix F); and
- (e) for paragraph 3.27(e), the cost estimates for consultants' fees for contract administration and remuneration of resident site staff should have been included in the project estimate of \$489 million. As approved by the FC in October 2014, the related estimated cost was \$43.2 million (\$25.5 million plus \$17.7 million in September 2014 prices — see items 9 and 10 in Appendix F).

Audit considers that the ENB/EPD need to take measures to provide clear, relevant and important information to LegCo in future (see para. 3.13(a)).

3.29 In November 2010, the EPD informed the EA Panel that the estimated cost of the project was \$489 million (in MOD prices). As it transpired, the 2011 Tender Exercise was cancelled in the public interest. Audit noted that the price of the lowest tender was significantly higher than the Government's earmarked funding for the proposed works and the EPD considered that the price of the lowest tender was unreasonably high (see para. 3.23). In the event, another tender exercise was carried out in February 2013 through open tendering, and the FC approved in October 2014 funding of \$1,589.2 million (in MOD prices) for the design and construction of the project.

Note 35: *In July, September and October 2015, the EPD informed Audit that:*

- (a) *there was a typographical error in the EA Panel paper of November 2010 where "28 million kWh" should read "14 million kWh", and the EPD had subsequently corrected this error in the information provided to the PWSC and the FC for seeking funding approval in 2014; and*
- (b) *the key information that the surplus electricity would be adequate for use by 3,000 households as a major environmental benefit of the project had been correctly conveyed to LegCo in the same EA Panel paper. The typographical error in the EA Panel paper had not materially affected the main subject of the discussion.*

Recycling of food waste

- 3.30 In September and October 2015, the EPD informed Audit that:
- (a) the scale of OWTF Phase 1 was the first of its kind in Hong Kong, and there was no applicable cost-reference data to allow the EPD to come up with an accurate cost estimate for the project. The EPD had adopted a prudent and cautious approach of going for tendering prior to submitting a funding application to the PWSC in order to get a more reliable estimate for seeking funding approval. Upon the completion and approval of the EIA report in February 2010 (see para. 3.28(b)), the EPD carried out more detailed designs to develop the project specifications and requirements in accordance with the findings and recommendations in the approved EIA report and to meet other necessary service and operational requirements. These project specifications and requirements had been incorporated in the 2011 Tender Exercise;
 - (b) in parallel with the 2011 Tender Exercise, the EPD carried out an in-house assessment on the source of funding for a contract-administration consultancy. After assessment, the EPD decided to include the cost of the contract-administration consultancy and that of the associated remuneration of resident site staff under the project (see para. 3.28(e)). The EPD only commenced the process for engaging the contract-administration consultant in January 2012. While the tender returns in the 2011 Tender Exercise reflected the requirements based on detailed studies on site conditions and operational needs, ENB/EPD analyses indicated that the general market volatility particularly in the construction industry since 2010 would significantly increase the tender prices reflected in the tender returns to cover the associated risks and costs. If the returned tender prices were not unreasonably high, the EPD would have followed the established administrative procedures to seek the Government's approval to increase the funding earmarked for the project; and
 - (c) the updated project cost estimate compiled according to the tender price received in the tender exercise conducted in 2013 (representing the updated market price), together with a detailed breakdown of all the major works components, had been provided to the EA Panel, the PWSC and the FC for seeking funding approval in 2014. There was no omission of works in the 2014 cost estimates, and there was no impact on the overall implementation and the cost of the OWTF Phase 1 project. The fact that the capital and operation costs of Contract A awarded in

December 2014 were lower than those of the returned tender prices in the 2011 Tender Exercise had proven that the EPD's proposal to cancel the 2011 Tender Exercise on public interest grounds (see para. 3.23) was prudent, correct and justified.

3.31 Partly owing to the cancellation of the 2011 Tender Exercise and re-tendering of the project in 2013, the commissioning of OWTF Phase 1 would be postponed by four years from March 2013 to mid-2017. During the four-year period, a substantial quantity of food waste would be disposed of at landfills instead of being treated by the facility. In this connection, OWTF Phase 1 was designed to treat 200 tpd or 73,000 tonnes of food waste a year. While Audit noted that the cancellation of the 2011 Tender Exercise was made in the public interest (see para. 3.23), the tender cancellation could undermine the Government's credibility in conducting tender exercises.

3.32 Audit also noted that, mainly owing to the omissions or significant under-estimation of some cost components in the project estimate made in November 2010 (see para. 3.28(b) to (e)), the project estimate of \$489 million (in MOD prices) had been significantly under-estimated. As a result, the Government's earmarked funding for the project was insufficient to meet the project cost. The ENB/EPD need to draw lessons from this incident and take measures to make improvement in implementing a works project in future.

Need to provide LegCo with cost-breakdown information

3.33 On 21 March 2014, in response to the EA Panel's request for detailed breakdown information of the original project estimate of \$489 million for comparison with the updated project estimate of \$1,532.8 million, the ENB/EPD said that:

- (a) they did not have the detailed breakdown information on the project cost of \$489 million estimated in 2010; and
- (b) the \$489 million was an indicative figure based on an initial broad-brush scheme, comprising provision for basic plant and equipment for anaerobic digestion and composting (estimated at \$250 million), and basic civil engineering and building works (estimated at \$239 million).

Recycling of food waste

- 3.34 In September and October 2015, the EPD informed Audit that:
- (a) the project estimate of \$489 million was a rough and indicative one based on a broad-brush scheme developed in April 2007 under the 2006 Consultancy Study (see para. 3.6), and the scheme was used as the reference basis for working out the initial capital cost estimate stated in the Technical Feasibility Statement (Note 36) for OWTF Phase 1 prepared by the EPD in July 2007;
 - (b) the broad-brush scheme developed in April 2007 was compiled based on information collected from overseas anaerobic-digestion suppliers for the development of large-scale biological treatment facilities; and
 - (c) the cost figures were intended for indicative purposes and subject to change when further information on the development of OWTF Phase 1 was available and they had been prepared before the appointment of Consultant A to carry out the engineering feasibility study in August 2008. The detailed engineering feasibility study was completed in February 2011.

3.35 Appendix G shows the cost breakdown of \$489 million according to the Technical Feasibility Statement prepared by the EPD in July 2007 and approved by the Development Bureau in August 2007, together with the EPD's project cost updates from August 2007 to November 2010.

3.36 Audit considers that the cost-breakdown information of \$489 million in Appendix G would facilitate the EA Panel in conducting a cost comparison in March 2014 with the updated cost breakdown of \$1,532.8 million (see para. 3.33). Therefore, the ENB/EPD need to endeavour to provide cost-breakdown information requested by LegCo in future.

Note 36: *According to the prevailing Financial Circular No. 11/2001 "Requirements for Project Definition Statement and Technical Feasibility Statement for Capital Works Projects" issued in November 2001, a works department concerned was required to complete a Technical Feasibility Statement. Financial Circular No. 11/2001 was replaced by Financial Circular No. 4/2012 in July 2012 with the above requirement remaining unchanged.*

Risk of inadequate food waste delivered to OWTF Phase 1

3.37 In November 2010, the EPD informed the EA Panel that OWTF Phase 1 would provide treatment for source-separated organic waste primarily coming from the C&I establishments located in districts near Siu Ho Wan, such as Lantau Island, Tsuen Wan, Kwai Tsing, Sham Shui Po, Yau Tsim Mong and Kowloon City. According to the EPD's plan, of the design capacity of OWTF Phase 1 of 200 tpd, 85.6 tpd (43%) would be utilised by the food waste generated by the 25 wet markets located in the related districts managed by the FEHD, and the remaining 114.4 tpd (57%) of food waste will be provided by private sectors such as shopping malls, food factories, restaurants and hotels.

3.38 In October 2011, the FEHD informed the EPD that, in view of resource consideration, the FEHD would only select 5 wet markets for delivering 11.5 tpd of food waste (i.e. representing only 13% of the planned 85.6 tpd) to OWTF Phase 1. In Audit's view, the ENB/EPD need to take measures to ensure that adequate quantity of food waste is collected and delivered to OWTF Phase 1 for treatment upon its commissioning in mid-2017.

Audit recommendations

3.39 **Audit has recommended that the Secretary for the Environment and the Director of Environmental Protection should:**

- (a) **in implementing a works project in future:**
 - (i) **take measures to ensure that significant work requirements are included in a consultancy agreement; and**
 - (ii) **endeavour to make a reasonable cost estimate so that the Government can earmark sufficient funding for the project; and**
- (b) **take measures to ensure that adequate quantity of food waste is collected and delivered to OWTF Phase 1 for treatment upon its commissioning in mid-2017.**

Response from the Government

3.40 The Secretary for the Environment and the Director of Environmental Protection agree with the audit recommendations. The Director of Environmental Protection has said that:

- (a) for paragraph 3.39(a), the EPD will continue to make reasonable cost estimates and ensure that significant work requirements are stipulated in project consultancy agreements; and
- (b) for paragraph 3.39(b), the EPD has engaged a service contractor to liaise with the C&I sector and will continue to secure support from the major food-waste-generation establishments to deliver source-separated food waste to OWTF Phase 1 for treatment upon its commissioning in mid-2017.

3.41 The Director of Food and Environmental Hygiene has said that, for paragraph 3.38:

- (a) the FEHD has provided the EPD with data on the daily waste generation of wet markets to facilitate the EPD's estimation of the quantity of food waste that could be separated for collection and delivery to OWTF Phase 1; and
- (b) subject to the FEHD's resources and capability in food-waste separation, collection and delivery, it will continue to work in collaboration with the EPD to collect and deliver food waste from stall operators in public markets (including cooked food markets) to OWTF Phase 1.

Food-waste recycling in public rental housing estates

3.42 Since 2005, in order to raise environmental awareness among PRH residents and instil a culture of protecting and improving the environment, the HD had launched a community environmental educational programme in PRH estates (a total of 171 estates had participated in the programme as of August 2015), under which three NGOs had been engaged to assist in carrying out related activities. While the programme focused on different environmental themes every year, since 2012, the programme had focused on reduction of MSW including food waste.

On-site recycling scheme

3.43 In December 2012, under the community environmental educational programme, the HD implemented a trial on-site food-waste recycling scheme using its resources in Lam Tin Estate. Under the trial scheme, the HD procured and installed food-waste treatment facilities in Lam Tin Estate for decomposing food waste (by micro-organisms) into fertiliser for use by the Estate. Of the 3,000 PRH flats in Lam Tin Estate, 90 households (3%) had participated in the scheme. Under the scheme, each participating household was provided with a food-waste bucket for storing food waste and delivering to a collection point, where the bucket would be exchanged for a clean and empty one. The HD cleansing staff would collect the food-waste buckets and empty the food waste into receiving bins for fermentation before burying it into the ground for further treatment.

Off-site recycling schemes

3.44 From November 2012 to July 2014, under the community environmental educational programme, the HD had implemented trial off-site recycling schemes in 13 PRH estates (Note 37) using its own resources. Of the total 64,600 PRH flats in the 13 PRH estates, 3,108 households (4.8%) had participated in the schemes.

Note 37: *The 13 PRH estates were:*

- (a) *5 estates which commenced participating in the scheme in 2012, namely Ching Ho Estate, Lai Kok Estate, Nam Shan Estate, Tin Tsz Estate and Tin Wah Estate; and*
- (b) *8 estates which commenced participating in the scheme in 2013 and 2014, namely Grandeur Terrace, Kai Tin Estate, Lai On Estate, Lei Muk Shue Estate, On Yam Estate, Sun Chui Estate, Tin Ching Estate and Tsz Ching Estate.*

Recycling of food waste

Under the schemes, there were two arrangements for collecting food waste. Firstly, each participating household was provided with a food-waste bucket for storing food waste and delivering to a collection point, where the bucket would be exchanged for a clean and empty one. Secondly, a household would directly empty the food waste into a large food-waste container. The HD provided funding (Note 38) of \$72,490 a month to three NGOs for engaging a recycler to collect and transport the food waste from the 13 PRH estates to a private food-waste-recycling plant in Yuen Long for recycling the food waste into fish feed for selling by the recycler.

Areas for improvement

Small number of households in PRH estates participating in food-waste recycling trial schemes

3.45 According to surveys conducted by an HD consultant in 2012, 2013 and 2014, 66.1%, 66.5% and 65.2% of respondent residents of PRH estates respectively indicated that they would support and participate in food-waste recycling if it was implemented at their estates. However, Audit noted that, during the implementation of the schemes from November 2012 to July 2014, of the 67,600 households residing in all the 111 blocks in the 14 PRH estates, the HD had only invited 52,000 households in 86 blocks (77%) to participate in the food-waste-recycling schemes. In the event, only 3,198 (i.e. 6.2% of the 52,000 households invited) households had participated in the schemes.

3.46 During the 19 months from January 2013 to July 2014 (Note 39), the participating households had provided food waste weighing 599 tonnes. On average, 0.58 kg per-household-per-day of food waste was collected for treatment.

Note 38: *According to the HD, for both the on-site and off-site recycling schemes, it had incurred capital cost of the relevant building works and procuring the food-waste buckets, as well as the day-to-day running cost of water, electricity and hiring the related staff.*

Note 39: *Each of the 14 estates had participated in the scheme for different periods of time, ranging from 6 to 21 months. According to the HD, the quantities of food waste collected in the two preparatory months (i.e. November and December 2012) should be excluded in calculating the per-household-per-day food waste.*

3.47 In Audit's view, in implementing food-waste recycling schemes in future, the HD needs to invite as many households as possible to participate in the schemes. The HD also needs to strengthen efforts to encourage households to participate in the food-waste recycling schemes in future. To provide incentives for households to participate in the schemes, the HD may consider extending some forms of commendation to the participating households.

Cessation of food-waste recycling in PRH estates

3.48 In April 2014, the HD requested the EPD to provide annual funding of \$440,000 to support the continued operation of food-waste recycling in seven estates where the trial food-waste recycling schemes would end in June 2014. In this connection, in addition to the HD-funded food-waste recycling schemes (see paras. 3.43 and 3.44), from December 2011 to December 2013, the HD had implemented a trial food-waste recycling scheme funded by the EPD in two PRH estates using on-site composters. In reply, the EPD said that PRH estates were not qualified to apply for funding from the ECF for implementing food-waste recycling schemes because the HD might receive other forms of government funding. In October 2015, the HD informed Audit that, after conducting a review of the trial schemes (including the funding consideration), it had decided to:

- (a) taking into account the cost effectiveness, workload implications, tenants' responses, capacity of the food-waste recycler, and the food safety of the fish feed produced, cease the trial food-waste recycling schemes in 13 estates adopting off-site recycling with only Lam Tin Estate (adopting on-site recycling) continuing its food-waste recycling; and
- (b) since the trial schemes had provided invaluable experience in food-waste recycling for any future implementation of similar schemes in PRH estates, move on to a promotion-cum-incentive stage for waste reduction at source under the community environmental educational programme and expand the focus to reduction of all MSW.

Recycling of food waste

3.49 Audit notes that some 30% of Hong Kong's population live in PRH estates which are under the HD's management. In Audit's view, the HD needs to take the lead to practise food-waste recycling in PRH estates which would set an example for private housing estates to follow. Therefore, the HD and the ENB/EPD need to explore ways to finance food-waste recycling schemes in PRH estates.

Audit recommendations

3.50 **Audit recommends that the Director of Housing, in collaboration with the Secretary for the Environment and the Director of Environmental Protection, should:**

- (a) **in implementing food-waste recycling schemes in PRH estates in future:**
 - (i) **invite as many households as possible to participate in the schemes;**
 - (ii) **strengthen efforts to encourage households to participate in the schemes; and**
 - (iii) **consider extending some forms of commendation to the participating households; and**
- (b) **take the lead to practise food-waste recycling in PRH estates to set an example for private housing estates to follow.**

Response from the Government

3.51 The Director of Housing agrees with the audit recommendations. He has said that:

- (a) the Housing Authority aims to provide green and healthy living to PRH tenants and always supports the Government in pursuing environmental protection policies; and

- (b) the HD will continue to promote the reduction in food waste and other MSW in PRH estates and support the Government's green initiatives, keep in view developments in relation to food-waste reduction and recycling (such as the capacity and effectiveness of recyclers) and, taking into account Audit's recommendations, consider implementing suitable measures and initiatives.

3.52 The Director of Environmental Protection has said that the EPD will continue to provide technical assistance to the HD to practise food-waste recycling in PRH estates.

Food-waste recycling in private housing estates

3.53 In February 2011, the ECF Committee earmarked \$50 million to support the EPD's proposed scheme to implement food-waste collection and recycling projects in private housing estates. According to the EPD, the objectives of the scheme were to promote food-waste reduction, source separation and recycling in the domestic sector, to try out the logistics in the collection and recycling of food waste, and to engender behavioural changes of the participating households. The EPD also informed the ECF Committee that:

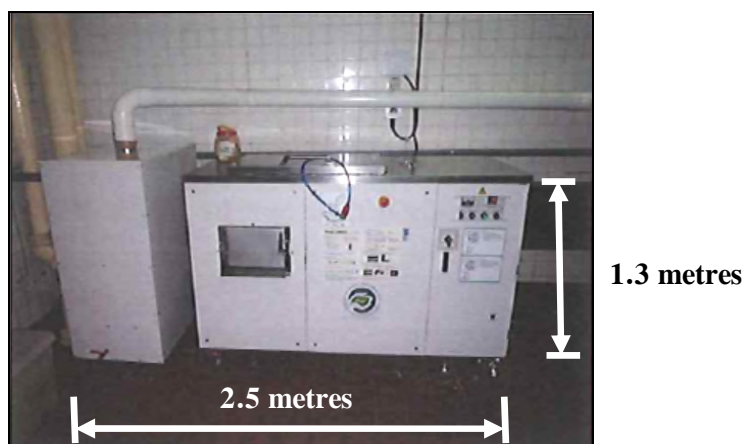
- (a) each approved housing estate would launch a two-year project using a leased on-site food-waste treatment machine (see Photograph 3 and Note 40) with a treatment capacity of 50 to 100 kg of food waste a day (i.e. 18.3 to 36.5 tonnes per year); and
- (b) the earmarked amount of \$50 million was estimated to cater for 80,000 households with an average participation rate of 10%.

In July 2011, the EPD set up a help-desk to provide technical advice and assistance on food waste collection and recycling to private housing estates requiring such assistance.

Note 40: *Under a lease of a food-waste treatment machine, the machine could be retained by the lessee upon expiry of the two-year lease period at a buy-in cost.*

Photograph 3

On-site food-waste treatment machine



Source: EPD records

3.54 According to the 2014 Food Waste Plan published in February 2014, the Government envisaged that 250,000 households (i.e. around 11% of the 2,270,000 households in Hong Kong) would participate in separation of food waste by 2022. In September 2014, the EPD informed LegCo that, as of August 2014, 39 private housing estates had received funding under the ECF to install food-waste treatment facilities, and a total of 1,400 tonnes of food waste would be recycled each year (i.e. 3.8 tpd).

3.55 In September 2014, the EPD informed the ECF Committee that some private housing estates would have difficulties to finance the full operation cost after the two-year period and these estates would most likely discontinue the food-waste recycling projects due to lack of further funding support. Subsequently, the ECF Committee approved the EPD's proposal that, upon successful application by housing estates, further funding support (also known as extended funding support) for another two years (subject to a maximum of 50% of the actual operation cost and a ceiling of \$0.3 million for each project) would be provided to enable the estates to continue their food-waste recycling projects, and there would be no further funding support upon completion of the extended two-year period. The ECF Committee also earmarked additional \$10 million to cater for applications from other private housing estates on top of the \$50 million originally earmarked in 2011 (see para. 3.53).

3.56 According to the EPD, food-waste recycling schemes in housing estates using individual on-site treatment machines are for educational and awareness-raising purposes in the interim period before the building up of adequate food-waste treatment capacities in various regions in Hong Kong, because there are many constraints and operational problems associated with the use of on-site treatment machines in individual estates, making them not a viable long-term food-waste recycling solution for Hong Kong. In this connection, the EPD informed the ECF Committee in September 2014 that since on-site recycling was not the most suitable long-term solution for Hong Kong, the EPD recommended that the continuation of the food-waste recycling schemes in private housing estates should be reviewed nearer to the commissioning of OWTF Phase 1 (i.e. in mid-2017 — see para. 3.17).

3.57 From November 2011 to June 2015, the ECF Committee had granted funding approvals to 47 private housing estates for implementing food-waste recycling projects (see Table 11):

Table 11
ECF projects on food-waste recycling in private estates
(November 2011 to June 2015)

Project	Number of estates	Approved funding (\$ million)
(a) Completed and:		
(i) applied for extended funding support (see para. 3.55)	3	2.9
(ii) not applied for extended funding support	6	5.7
	—	—
Sub-total for completed projects	9	8.6
(b) In progress	7	6.9
(c) Not yet commenced	24	25.7
(d) Withdrawn by estates before project commencement	7	Not applicable
Total	47	41.2

Source: EPD records

Areas for improvement

Low utilisation of food-waste recycling facilities in private housing estates

3.58 As of June 2015, 9 recycling projects had been completed and 7 projects were in progress. The 16 estates involved were inhabited by 43,091 households. Of the 16 estates, 14 (with a total of 29,804 households) provided air-tight containers to 1,644 participating households for storing and delivering food waste to collection points located at management offices. For the remaining 2 estates (with 13,287 households), the 337 participating households put food waste into collection bins located in common areas or put food-waste containers outside their units for collection by cleaners.

3.59 During the 34 months from commencement of the recycling projects in September 2012 to June 2015, of the 43,091 households residing in the 16 estates, 1,981 households (4.6% — ranging from 2.2% to 24.1% in each of the 16 estates) had participated in the recycling projects, which had provided food waste weighing 415 tonnes. On average, food waste of 42.7 kg per estate per day (ranging from 13 kg to 75.5 kg in each of the 16 estates) and 0.35 kg per household per day was collected for treatment (Note 41).

3.60 Audit noted that the overall average household participation rate of 4.6% of the recycling projects was much lower than that of 10% estimated by the EPD in February 2011 (see para. 3.53(b)). In this connection, the Government envisages that 11% of all the households in Hong Kong will participate in separation of food waste by 2022 (see para. 3.54). Given that the on-site treatment machines each had a daily treatment capacity of 100 kg of food waste, the 42.7 kg of food waste collected per estate per day only accounted for 42.7% of the total treatment capacity of the machines.

Note 41: *Each of the 16 estates had participated in the scheme for different periods of time, ranging from 2 to 24 months.*

3.61 According to the EPD, each on-site treatment machine would be able to treat food waste generated from about 200 households. Given that only 13% to 76% of the capacity of the 16 treatment machines had been utilised (see para. 3.59), in implementing food-waste recycling schemes in private housing estates, the ENB/EPD need to consider providing more support and strengthen efforts to encourage participating estates to invite more households to participate in the schemes. To provide incentives for households to participate in the schemes, the ENB/EPD may consider extending some forms of commendation to the best-performing housing estates.

Estates withdrawing from food-waste recycling schemes due to short-term funding

3.62 Up to June 2015, 7 approved estates had withdrawn from participating in the recycling projects before project commencement (see item (d) of Table 11 in para. 3.57). Audit examination of EPD records revealed that the main reason for the withdrawals was that the projects could not be sustainable in long term as the funding support would only be available for a two-year period.

3.63 Moreover, after launching the extended funding arrangement in September 2014, up to June 2015, 6 (67%) of the 9 completed projects had not applied for the extended funding support after expiry of the original two-year period (see item (a)(ii) of Table 11 in para. 3.57). According to the ENB/EPD, OWTF Phase 3 with a capacity of treating 300 tonnes of food waste a day would commence treating domestic food waste from 2022 (see paras. 4.6 and 4.7). In Audit's view, the ENB/EPD need to strengthen efforts on implementing trial schemes on separating and collecting food waste from the domestic sector to better prepare for the commissioning of OWTF Phase 3 in 2022.

3.64 The food-waste recycling schemes in both the PRH estates and private housing estates will provide valuable experience to the EPD in implementing full-scale food-waste recycling schemes in future. In addition, residents of these estates will accumulate experience and nurture habits in food-waste separation for recycling. In Audit's view, the ENB/EPD need to conduct a review and consider

Recycling of food waste

providing more incentives to housing estates so that they can continue participating in the related schemes, bearing in mind the exacerbated environmental problems arising from decomposition of food waste, the high cost of disposing of food waste at landfills and the significant problem of the limited landfill space being used up in the foreseeable future.

Many approved projects not yet commenced

3.65 As of June 2015, 24 approved projects had not commenced (see item (c) of Table 11 in para. 3.57). The related time periods are as follows:

Period from approval date to June 2015	Number of projects
Less than 1 month	5
1 to 12 months	2
13 to 24 months	17
Total	24

According to the EPD, the estates concerned had been taking actions to lease on-site food-waste treatment machines and to recruit the required operational staff, and a participating estate would normally take 8 months to complete the procurement procedures and install the treatment machines.

3.66 Moreover, as of June 2015, of the 6 completed recycling projects not having applied for extended funding support (see item (a)(ii) of Table 11 in para. 3.57), Audit noted that the food-waste treatment machine of one project had been transferred by the EPD for use in another ECF project, and the treatment machine of another project had been returned to the supplier. The treatment machines of the remaining 4 projects (which had been acquired by the ECF) had remained idle at the related estates. As 24 approved recycling projects had not commenced, the ENB/EPD need to assess the condition of the idle treatment machines with a view to transferring the appropriate ones for gainful use in other projects. The ENB/EPD also need to strengthen assistance provided to the estates through the help-desk (see para. 3.53), with a view to commencing the 24 approved projects as early as possible.

Audit recommendations

3.67 **Audit has *recommended* that the Secretary for the Environment and the Director of Environmental Protection should:**

- (a) in implementing food-waste recycling schemes in private housing estates:**
 - (i) consider providing support and strengthen efforts to encourage participating estates to invite more households to participate in the schemes in future; and**
 - (ii) consider extending some forms of commendation to the best-performing housing estates;**
- (b) strengthen efforts on implementing trial schemes on separating and collecting food waste from the domestic sector;**
- (c) conduct a review of the need to provide more incentives to housing estates participating in food-waste recycling schemes so that they can continue participating in the schemes;**
- (d) assess the condition of the four idle food-waste treatment machines with a view to transferring the appropriate ones for gainful use in other projects; and**
- (e) strengthen assistance provided to the private housing estates concerned with a view to commencing the 24 approved food-waste recycling projects as early as possible.**

Response from the Government

3.68 The Secretary for the Environment and the Director of Environmental Protection agree with the audit recommendations. The Director of Environmental Protection has said that the EPD will identify suitable projects for transfer of the food-waste treatment machines that are still in working condition.

PART 4: WAY FORWARD

4.1 This PART outlines the major audit observations and examines the way forward.

Government actions to reduce and recycle food waste

4.2 In 2011, 3,600 tpd of food waste were disposed of at landfills. Under the 2014 Food Waste Plan, the ENB/EPD aimed to reduce quantity of food waste disposed of at landfills by implementing the MSW charging scheme (aiming to reduce 324 tpd of food waste or 9% of 3,600 tpd) and the FW Campaign (aiming to reduce 360 tpd of food waste or 10% of 3,600 tpd). However, Audit examination revealed that there was room for improvement by the CSD, the HA and schools in reducing food waste. Audit has recommended that the pertinent B/Ds should strengthen efforts in implementing the MSW charging scheme and FW Campaign, and make improvements in related areas.

4.3 Regarding food-waste recycling, the 2014 Food Waste Plan promulgated initiatives to recycle a total of 900 tpd of food waste (25% of 3,600 tpd), comprising 100 tpd of food waste to be recycled by the private facility at EcoPark and progressively up to 800 tpd by OWTF Phases 1 to 3. For the purpose of educating the C&I and domestic sectors to practise food-waste reduction and source separation to prepare for large-scale food-waste recycling at OWTF Phases 1 to 3, the ENB/EPD constructed the Pilot Plant to treat food waste collected from the C&I sector (the plant recycled 0.88 tpd of food waste in 2014) and provided financial support through the ECF to private housing estates to implement food-waste recycling projects (which together recycled 0.7 tpd of food waste from September 2012 to June 2015). Furthermore, the HD also implemented trial schemes on food-waste recycling in 14 PRH estates, which together recycled 1.6 tpd of food waste from January 2013 to July 2014. Audit has recommended that the ENB/EPD and the HD should strengthen efforts and make improvements in the above-mentioned areas.

Way forward

4.4 In 2013, Hong Kong generated 1.36 million tonnes of food waste, of which 1.33 million tonnes (98%) were disposed of at landfills and the remaining 0.03 million tonnes (2%) were recycled mainly as compost or fertiliser. Moreover, food waste disposed of at landfills accounted for 38% of the total 3.48 million tonnes of MSW disposed of at landfills in the year. It is a cause for concern that food waste disposed of at landfills had increased from 1.18 million tonnes in 2004 to 1.33 million tonnes in 2013 (a 13% increase). According to the EPD, Hong Kong's per-capita-per-day domestic food waste of 0.37 kg was 85% higher than the 0.2 kg each generated by Taipei and Seoul.

4.5 Hong Kong is facing a significant MSW disposal problem as the existing three landfills, subject to the FC's funding approval for WENT extension works and after completing the approved and proposed extension works, would reach their capacity from 2023 to 2034. Disposal of large quantities of food waste at landfills also increases the generation of greenhouse gas and leachate where the latter is a highly polluting liquid. Furthermore, food waste takes a long time to decompose and may cause instability of landfill surface. These problems would delay the gainful use of closed landfill sites. Audit noted that the Government had taken piecemeal actions in the past years to address the food-waste problem, and it only in 2014 for the first time set a specific target for reducing food-waste disposal at landfills by 40% by 2022. As revealed in the various parts of this review, the progress and achievement of government actions taken so far to address the food-waste problem has been less than satisfactory. Therefore, the ENB/EPD need to strengthen efforts and expedite actions to tackle the problems encountered in implementing the various measures set out in the 2014 Food Waste Plan with a view to achieving the target of reducing food-waste disposal at landfills by 40% by 2022, using 2011 as the base year.

4.6 The EPD has planned to commission OWTFs by three phases, namely Phase 1 in mid-2017, Phases 2 in 2020 and Phase 3 in 2022. In this connection, implementation of OWTF Phases 2 and 3 is subject to the Government's established funding-allocation mechanism and the FC's funding approvals. The timely completion of the three phases of OWTFs would help reduce disposal of 0.3 million tonnes of food waste at landfills a year, accounting for 23% of the annual food-waste disposal (assuming the quantity remains unchanged from 2013 to 2022). Therefore, it is of utmost importance that the facilities could be installed within the EPD's updated timeframe. In view of the fact that OWTF Phase 1 would take nine

Way forward

years from conducting the engineering feasibility study in August 2008 to commissioning in mid-2017, Audit considers that the ENB/EPD need to take early actions and strengthen efforts with a view to ensuring that Phases 2 and 3 of OWTFs would commence operation by 2020 and 2022 respectively. Given that upon commissioning of OWTF Phases 1 to 3, they would only treat in aggregate 0.3 million tonnes of the total 1.33 million tonnes of food waste that would otherwise be disposed of at landfills a year, the ENB/EPD need to commence planning for additional OWTFs to treat the remaining food waste that can be separated and collected for treatment.

4.7 According to the ENB/EPD, Phases 1 and 2 of OWTFs would be used to treat food waste generated by the C&I sector and Phase 3 by both the C&I sector and the domestic sector. Audit considers that the ENB/EPD need to strengthen efforts on implementing trial schemes in separating and collecting food waste from the domestic and C&I sectors to gain experience and inculcate the general public's behavioural changes in waste disposal to prepare for the full implementation of the OWTFs (see paras. 3.13(b) and 3.67(b)). In Audit's view, based on lessons learned from the operation of the Pilot Plant and the food-waste-recycling schemes in the private housing and PRH estates, the ENB/EPD need to critically assess if sufficient food waste could be collected for the OWTFs, and take early actions to map out and implement an effective system for separating, collecting and transporting food waste from the C&I and domestic sectors to the OWTFs for treatment.

4.8 In June 2013, the Food and Health Bureau informed LegCo that the FEHD and its contractors collected 85% of MSW from households, and private contractors collected the remaining 15% of MSW from households and the C&I sector. According to the EPD, the refuse collection vehicles of the FEHD may not be suitable for collecting food waste because of the stringent need to prevent leachate spillage and to contain the odour problem during transportation of food waste. In October 2015, the EPD informed Audit that the C&I establishments were responsible for delivering their waste either to refuse transfer stations or landfills, and the C&I sector would be responsible for arranging suitable vehicles to deliver the separated food waste to OWTF Phase 1 upon its commissioning in mid-2017. In Audit's view, the ENB/EPD need to liaise with the C&I sector to make suitable arrangements (including provision of suitable vehicles) for transporting food waste to OWTFs.

4.9 In October 2015, the EPD informed Audit that the anaerobic-digestion treatment technology would likely be adopted for OWTF Phase 3 subject to findings of the forthcoming engineering feasibility study, and the production of compost as a by-product from Phase 3 had yet to be determined.

4.10 The large quantities of compost produced as a by-product by the OWTFs need to be gainfully used. According to the EPD, OWTF Phases 1 and 2 would respectively produce 7,400 tonnes and 14,900 tonnes of compost each year. In the event that OWTF Phase 3 would adopt anaerobic digestion as the treatment technology where the residuals would be processed to become compost, as the facility would have the same food-waste treatment capacity of 300 tpd as OWTF Phase 2 (see Table 10 in para. 3.16), Phase 3 might also produce additional 14,900 tonnes of compost a year. In this connection, in April 2014, the ENB/EPD informed the PWSC that the total demand for compost in Hong Kong would be around 20,000 tonnes a year. Unless other ways of using compost are identified, it would appear that the local demand would not be able to absorb the 37,200 (7,400 + 14,900 + 14,900) tonnes of compost potentially to be generated by OWTF Phases 1 to 3. In Audit's view, the ENB/EPD need to take early actions with a view to exploring ways and means to make beneficial use of the compost that would be generated by OWTF Phases 1 to 3.

Audit recommendations

4.11 **Audit has recommended that the Secretary for the Environment and the Director of Environmental Protection should strengthen efforts and expedite actions to:**

- (a) **implement the various measures set out in the 2014 Food Waste Plan;**
- (b) **ensure that OWTF Phase 1 would commence operation by 2017 and, subject to resource availability, commission OWTF Phases 2 and 3 by 2020 and 2022 respectively;**
- (c) **commence planning for additional OWTFs to treat the remaining food waste that can be separated and collected for treatment;**

Way forward

- (d) **based on lessons learned from the operation of the Pilot Plant and the food-waste-recycling schemes in the private housing and PRH estates:**
 - (i) **critically assess if sufficient food waste could be collected for treatment by the OWTFs; and**
 - (ii) **map out and implement an effective system for separating, collecting and transporting food waste from the C&I and domestic sectors to OWTFs for treatment;**
- (e) **liaise with the C&I sector to make suitable arrangements (including provision of suitable vehicles) for transporting food waste to OWTFs; and**
- (f) **explore ways and means to make beneficial use of the compost that would be generated by OWTF Phases 1 to 3.**

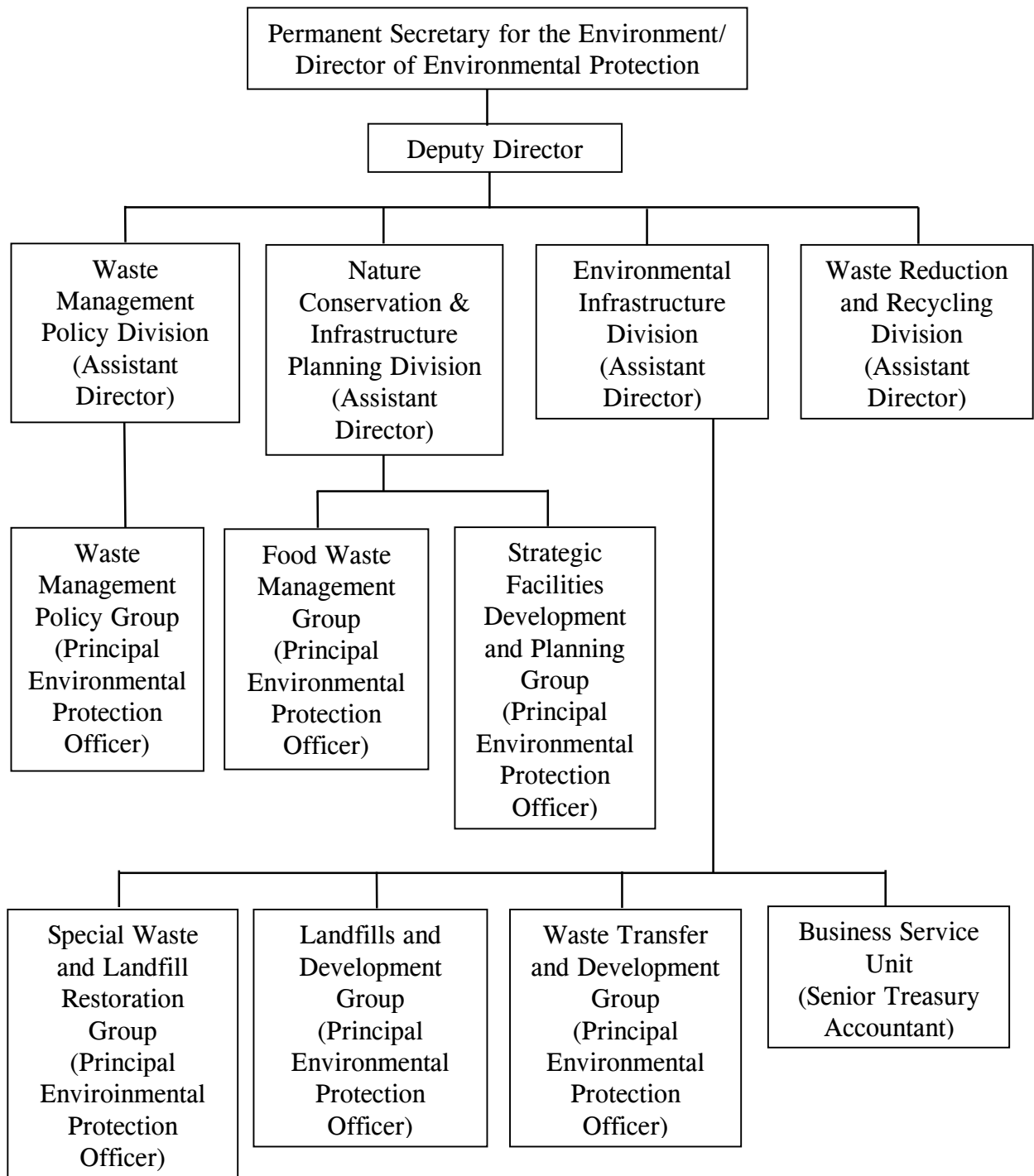
Response from the Government

4.12 The Secretary for the Environment and the Director of Environmental Protection agree with the audit recommendations. The Director of Environmental Protection has said that:

- (a) for paragraph 4.11(a), the EPD will take all possible steps to expedite actions in implementing the measures set out in the 2014 Food Waste Plan;
- (b) for paragraph 4.11(b), the EPD will take measures to ensure that OWTF Phase 1 will commence operation by 2017 and will endeavour to take forward OWTF Phases 2 and 3 as early as practicable;
- (c) for paragraph 4.11(c), the EPD will continue to work with the relevant B/Ds to identify suitable sites for constructing additional OWTFs to treat the remaining food waste that can be separated and collected for treatment;

- (d) for paragraph 4.11(d), the EPD has engaged a service contractor to liaise with the C&I sector, and will continue to secure support from major food-waste-generation establishments to deliver source-separated food waste to OWTF Phase 1 for treatment upon its commissioning in mid-2017. The EPD will also commission a study on the food-waste collection and delivery arrangements to prepare for the operation of future OWTFs;
- (e) for paragraph 4.11(e), the EPD will strengthen efforts to liaise and work with the relevant trades and organisations for them to make suitable arrangements (including provision of suitable vehicles) to deliver food waste to OWTF Phase 1; and
- (f) for paragraph 4.11(f), the EPD will continue to explore ways to make good use of compost to be generated from the initial phases of OWTFs.

**Environmental Protection Department
Organisation chart (extract)
(30 June 2015)**



Source: EPD records

**Programmes and activities under
the Food Wise Hong Kong Campaign
(August 2015)**

Engagement and social mobilisation activities

1. Launching of Food Wise Eateries Scheme specifically targeted at the food and beverage sector to promote food wise, meal portioning and other food-waste-reduction measures (to be launched in late 2015)
2. Establishing FW Charter and launching Food Wise Hong Kong Ambassador Scheme (see paras. 2.19 to 2.21)
3. Collaborating with major community associations and organisations to promote food-waste avoidance and reduction at households (see para. 2.21)

Publicity and education activities

4. Promoting the “Big Waster” icon (see Figure 4 in para. 2.18)
5. Launching media publicity
6. Carrying out roving exhibitions

Technical support activities

7. Organising food-wise training sessions and sharing workshops (see para. 2.21)
8. Producing Food Waste Reduction Good Practice Guides between May 2013 and October 2014 for six sectors, namely residential, shopping mall, market, educational, food and beverage, and hotel
9. Conducting three-level (i.e. baseline, interim and final) territory-wide food-waste surveys and audits for the food and beverage sector (baseline audit already conducted in 2014, and interim and final audits would be conducted in 2015 and 2016 respectively)

Source: EPD records

**Government bureaux and departments invited
but not signing the Food Wise Charter
(June 2015)**

B/D	Main reasons for not signing the Charter	Main measures adopted for reducing food waste
(a) AMS	<ul style="list-style-type: none"> • Not viable for the only one small-scale canteen with slim profit margin to invest in drawing up and implementing a food-waste-reduction plan and audit the implementation 	<ul style="list-style-type: none"> • Would remind the canteen operator to take practical actions to reduce food waste in its operation as far as possible
(b) CSD (other than Lo Wu Correctional Institution)	<ul style="list-style-type: none"> • Assigned Lo Wu Correctional Institution to sign the FW Charter in 2013 (see Note to Table 2 in para. 2.22) 	<ul style="list-style-type: none"> • A “Waste No Food Scheme” launched at four CSD institutions since April 2013
(c) C&ED	<ul style="list-style-type: none"> • Requested the EPD to clarify the third and fourth measures of the Charter (see para. 2.20(c) and (d)) in May 2013. However, up to June 2015, the C&ED had not received any reply from the EPD 	<ul style="list-style-type: none"> • Arranged canteen operators to attend green-measure seminars • Reminded canteen operators to be attentive to customers’ request on reducing food portion • Put up reminders at canteen on reduction of food waste, avoiding over-purchase of food and making good use of surplus food
(d) HKPF	<ul style="list-style-type: none"> • The commitments under the FW Charter presented a new and specialised subject to the HKPF • Needed to ascertain the specific measures and undertakings, and assess the capability and readiness of HKPF’s catering service contractors, having regard to relevant experience available 	<ul style="list-style-type: none"> • Encouraged contractors to adopt practical FW Charter measures in reducing food waste (e.g. not to provide food more than could be consumed, estimate daily requirement to keep waste to minimum and request staff to take home surplus cooked food for consumption) • Shared with HKPF members food-waste reduction principles to enhance their awareness and commitment

Appendix C
(Cont'd)
(para. 2.23 refers)

B/D	Main reasons for not signing the Charter	Main measures adopted for reducing food waste
(e) FEHD	<ul style="list-style-type: none"> • Implementing the second and third measures of the Charter (see para. 2.20(b) and (c)) fell beyond FEHD's capacity and capability • Could not restrict the type of recipes adopted by tenants and holders of food business licences 	<ul style="list-style-type: none"> • Nominated some public markets to join the Partnership Scheme • Assisted in drafting the market-sector Food Waste Reduction Good Practice Guide • Gave out related leaflets to fast-food vendors in Lunar New Year Fairs • Issued food-safety guidelines on food donation • Installed a food-waste composter since end 2012 at a public market on a trial basis
(f) GPA	<ul style="list-style-type: none"> • Not approached by the EPD to sign the Charter after the inter-departmental meeting on supporting waste recycling held in October 2013 	<ul style="list-style-type: none"> • Implemented a trial scheme on installing food-waste composters since 2013 in three government quarters • Held canned food-donation campaign in July and August 2014 • Displayed food-waste reduction/recycling posters in all government quarters since July 2015
(g) HD	<ul style="list-style-type: none"> • Not yet fully fulfilled the Charter regarding implementing plans with measurable targets and conducting waste audits 	<ul style="list-style-type: none"> • Held "Cherish food with rewards" campaign in 2012 and "Food waste has value" green recipe competition in 2013 • Launched "Empty your plate" campaign, issued pamphlets on "Eat light, eat right" tips and showed "Go green. Eat light. So easy!" video in 2014

Appendix C
 (Cont'd)
 (para. 2.23 refers)

B/D	Main reasons for not signing the Charter	Main measures adopted for reducing food waste
(h) LCSD	<ul style="list-style-type: none"> • Had not operated any catering service, and operation not involved production of food and generation of food waste • Catering outlets inside LCSD venues were all contracted out • LCSD contractors would decide whether to adopt related measures or sign the Charter 	<ul style="list-style-type: none"> • No information provided

Source: B/Ds records

Appendix D
(paras. 2.43, 2.45
and 2.46 refer)

**Per-person-in-custody-per-day food-waste quantities of
29 Correctional Services Department institutions
(August 2015)**

No.	CSD Institution	Average number of PICs provided with meals by the CSD	Per-PIC- per-day food waste (kg)
1	Pelican House (Note 1)	2	1.61
2	Phoenix House (Note 1)	4	1.03
3	Tai Lam Centre for Women (Note 2)	175	1.00
4	Tai Tam Gap Correctional Institution	105	0.37
5	Lai Hang Rehabilitation Centre (Note 1)	11	0.36
6	Wai Lan Rehabilitation Centre (Note 1)	1	0.33
7	Lai Sun Correctional Institution	38	0.29
8	Nei Kwu Correctional Institution	136	0.27
9	Tung Tau Correctional Institution	297	0.27
10	Chi Lan Rehabilitation Centre	10	0.23
11	Lai King Correctional Institution	120	0.19
12	Siu Lam Psychiatric Centre	248	0.17
13	Pik Uk Correctional Institution	320	0.14
14	Pik Uk Prison	358	0.12
15	Lo Wu Correctional Institution	1,238	0.11
16	Pak Sha Wan Correctional Institution	284	0.09
17-18	Sha Tsui Correctional Institution/ Lai Chi Rehabilitation Centre	71	0.09
19	Tai Lam Correctional Institution	437	0.09
20	Tong Fuk Correctional Institution	659	0.09
21	Cape Collinson Correctional Institution	105	0.07
22	Lai Chi Kok Reception Centre	1,399	0.06
23	Shek Pik Prison	411	0.04
24	Stanley Prison	1,215	0.03
25	Hei Ling Chau Addiction Treatment Centre	459	0.02
26	Hei Ling Chau Correctional Institution	349	0.02
27	Bauhinia House (Note 1)	0	N/A
28	Queen Elizabeth Hospital Custodial Ward	0	N/A
29	Queen Mary Hospital Custodial Ward	0	N/A

Source: Audit analysis of CSD records

Note 1: PICs in half-way houses and Phase II of rehabilitation-centre programmes (i.e. CSD institutions No. 1, 2, 5, 6 and 27) were permitted to leave the CSD institutions for day activities and they may choose to consume their own food. Numbers of PICs taking meals outside CSD institutions were not included in this Appendix.

Note 2: According to the CSD, participation rate of this institution in the “Waste No Food Scheme” (see para. 2.43) was relatively low because many of the PICs in the institution were less acclimatised to the new environment.

Appendix E
(paras. 2.47
and 2.48 refer)

**Per-in-patient-per-day food-waste quantities of
38 Hospital Authority hospitals
(July/August 2015)**

No.	HA hospital	Average number of in-patients (Note)	Per-in-patient-per-day food waste (kg)
1	Grantham Hospital	244	0.58
2-4	Kowloon Hospital/Hong Kong Eye Hospital/ Hong Kong Buddhist Hospital	1,346	0.46
5	Tung Wah Hospital	353	0.37
6	United Christian Hospital	1,138	0.37
7	Haven of Hope Hospital	409	0.36
8	Queen Elizabeth Hospital	2,217	0.36
9	Princess Margaret Hospital	1,299	0.35
10	North Lantau Hospital	38	0.34
11-13	The Duchess of Kent Children's Hospital at Sandy Bay/Tung Wah Group of Hospitals Fung Yiu King Hospital/MacLehose Medical Rehabilitation Centre	297	0.34
14	Queen Mary Hospital	1,344	0.33
15	Tseung Kwan O Hospital	543	0.32
16	North District Hospital	456	0.29
17	Caritas Medical Centre	773	0.28
18	Yan Chai Hospital	554	0.26
19	Alice Ho Miu Ling Nethersole Hospital	314	0.23
20	Tai Po Hospital	633	0.22
21	St. John Hospital	12	0.20
22	Pamela Youde Nethersole Eastern Hospital	1,412	0.19
23	Kwong Wah Hospital	728	0.18
24	Pok Oi Hospital	443	0.17
25	Tuen Mun Hospital	1,667	0.17
26	Cheshire Home, Chung Hom Kok	184	0.14
27	Kwai Chung Hospital	679	0.13
28	Prince of Wales Hospital	1,379	0.13
29-30	Shatin Hospital/Bradbury Hospice	536	0.13
31-32	Tung Wah Group of Hospitals Wong Tai Sin Hospital/Our Lady of Maryknoll Hospital	572	0.11
33	Wong Chuk Hang Hospital	516	0.11
34	Tung Wah Eastern Hospital	210	0.10
35-36	Castle Peak Hospital/Siu Lam Hospital	1,281	0.08
37	Cheshire Home, Shatin	317	0.08
38	Ruttonjee Hospital and Tang Shiu Kin Hospital	606	0.06

Source: *Audit analysis of HA records*

Note: *During the three-day survey period, some in-patients did not take meal and others took one to three meals a day. For simplicity, the data included all in-patients irrespective of the number of meals provided to each of them.*

Appendix F
(paras. 3.18 and 3.28(b),
(d) and (e) refer)

**Project estimates of Organic Waste Treatment Facility Phase 1
(October 2014)**

Works item	Cost estimate (\$ million)
(1) Site formation, geotechnical, drainage and civil works	138.6
(2) Architectural, building and landscape works	473.0
(3) Organic waste treatment facilities	
(a) Waste receiving system	93.1
(b) Pre-treatment system	56.2
(c) Anaerobic digestion system	67.9
(d) Composting system	24.3
(e) Biogas cleaning and storage system	24.4
(f) Associated electrical, control and instrument installations	<u>83.0</u>
Sub-total for works item (3)	348.9
(4) Ancillary works and facilities	66.1
(5) Waste-water treatment system	50.7
(6) Heat recovery, power generation and surplus electricity export systems	105.3
(7) Pollution control and environmental monitoring facilities	43.9
(8) Mitigation measures and environmental monitoring and audit for construction works	12.8
(9) Consultants' fees for contract administration and operational performance reviews	25.5
(10) Remuneration of resident site staff	17.7
(11) Contingencies	128.0
Sub-total (in September 2014 prices)	1,410.5
(12) Provision for price adjustment	178.7
Total (in MOD prices)	1,589.2

Source: Paper submitted by the ENB to the FC in October 2014

**Project estimates of Organic Waste Treatment Facility Phase 1
(November 2010)**

Particulars	Cost estimate (\$ million)
(A) According to Technical Feasibility Statement approved in Aug. 2007	
(1) Civil engineering works:	
(a) Foundation	30.0
(b) Superstructure	20.0
(2) Plant and equipment:	
(a) Pre-treatment unit	27.0
(b) Anaerobic digestion unit	54.0
(c) Dewatering and mixing unit	9.0
(d) Biogas treatment and valorisation unit	36.0
(e) Composting unit	39.0
(f) Air treatment unit	14.0
(g) Waste-water treatment unit	6.0
(h) Electrical and mechanical equipment	10.0
(i) Other associated facilities	5.0
(3) Contingencies	<u>25.0</u>
Sub-total	275.0
(B) According to the EPD's project cost updates from Aug. 2007 to Nov. 2010	
(1) Changes in project design:	
(a) Enhanced building design and increase in floor space for education centre	54.0
(b) Increase in foundation requirement based on updated ground investigation results	20.0
(c) Provision for nullah decking to overcome site constraint	19.0
(d) Additional green measures	13.0
(e) Additional commissioning expenses	10.0
(f) Incorporation of approved EIA recommendations (e.g. special fencing, green features and green roof)	6.0
(g) Road works not identified at initial stage	5.0
(h) Works for sale of electricity	5.0
(2) Fee for contract supervision not identified at initial stage	13.3
(3) Increase in project contingencies	14.5
(4) Price fluctuation adjustments:	
(a) in 2008	7.1
(b) in 2009	-19.3
(c) in 2010	<u>7.4</u>
Sub-total	<u>155.0</u>
Cost estimate (at price level in second quarter of 2010)	430.0
(5) Provision for price adjustment	<u>59.0</u>
Total (in MOD prices)	489.0

Source: EPD records

Acronyms and abbreviations

ACE	Advisory Council on the Environment
AMS	Auxiliary Medical Service
Audit	Audit Commission
B/D	Government bureau and department
CAS	Civil Aid Service
CSD	Correctional Services Department
C&ED	Customs and Excise Department
C&I	Commercial and industrial
EA Panel	Panel on Environmental Affairs
ECF	Environment and Conservation Fund
EDB	Education Bureau
EIA	Environmental impact assessment
EMSTF	Electrical and Mechanical Services Trading Fund
ENB	Environment Bureau
EPD	Environmental Protection Department
FC	Finance Committee
FEHD	Food and Environmental Hygiene Department
FSD	Fire Services Department
FSTB	Financial Services and the Treasury Bureau
FW Campaign	Food Wise Hong Kong Campaign
FW Charter	Food Wise Charter
GFS	Government Flying Service
GPA	Government Property Agency
ha	hectares
HA	Hospital Authority
HD	Housing Department
HKPF	Hong Kong Police Force
ImmD	Immigration Department
kg	kilogram
kWh	kilowatt-hour
LCSD	Leisure and Cultural Services Department
LegCo	Legislative Council
MOD	Money-of-the-day
MSW	Municipal solid waste
NENT	Northeast New Territories
NGO	Non-governmental organisation
OWTF	Organic waste treatment facility
PIC	Person-in-custody
PRH	Public rental housing
PWSC	Public Works Subcommittee
SENT	Southeast New Territories
tpd	tonnes per day
WENT	West New Territories

CHAPTER 3

**Education Bureau
Lands Department**

Use and disposal of vacant school premises

**Audit Commission
Hong Kong
27 October 2015**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 65 of the Director of Audit contains 10 Chapters which are available on our website at <http://www.aud.gov.hk>

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USE AND DISPOSAL OF VACANT SCHOOL PREMISES

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USE AND DISPOSAL OF VACANT SCHOOL PREMISES

Executive Summary

1. Vacant school premises (VSP) mean premises of schools that have ceased to operate for various reasons such as closing the schools and reprovisioning the schools to other premises, including VSP resulted from the Government's policy on consolidation of under-utilised primary schools implemented since the 2003/04 school year. For VSP suitable for school or other educational uses, the Education Bureau (EDB) aims to put them to gainful use in the shortest possible time. For other VSP, the EDB aims to return them to relevant departments, mainly the Lands Department (LandsD), in an expeditious manner for consideration of alternative uses. According to EDB records, there were 105 VSP not being used as at 30 April 2015. The Audit Commission (Audit) has recently conducted a review of the use and disposal of VSP.

Identifying VSP

2. The EDB has an established mechanism for handling VSP, including identifying them and allocating suitable ones for school or other educational uses. Under the mechanism, the EDB has since July 2005 maintained a database on VSP mainly based on information provided by its Regional Education Offices. Between July 2005 and 30 April 2015, the database recorded a total of 234 VSP. About 80% of the schools concerned were primary schools and the remaining were mainly secondary schools (paras. 2.2 and 2.6).

3. *VSP not identified and handled in accordance with established mechanism.* The EDB maintains a school registration database containing records of schools registered/deregistered by the EDB at various times, which could be used for identifying VSP. Using such information in the school registration database up to 30 April 2015, Audit sample check revealed 14 VSP not included in the 234 VSP recorded in the EDB's database on VSP. The EDB should review these 14 cases and the mechanism for handling VSP (paras. 2.7 and 2.10).

Executive Summary

4. ***Room for enhancing transparency on uses of VSP.*** In response to Legislative Council Members' questions about uses of VSP, the EDB mainly provided information on primary schools that had ceased operation due to the Government's policy on consolidation of under-utilised primary schools since 2003/04. The information provided did not cover all VSP in the EDB's database on VSP, such as primary schools that had ceased operation due to other reasons. For example, in March 2015, the EDB disclosed that since 2003/04 the VSP of primary schools that had ceased operation due to the Consolidation Policy and the VSP of secondary schools that had ceased operation or merged with other schools were 88 and 20 respectively, when its database on VSP recorded a total of 234 VSP. There was a significant number of VSP of schools that had ceased operation due to reasons other than the Consolidation Policy (paras. 2.15 to 2.17).

5. ***VSP having undergone improvement works.*** Of the 234 VSP in the EDB's database on VSP, 79 were included in the EDB's School Improvement Programme implemented between 1994 and 2007, which intended to benefit the students for at least five years. However, 26 of the 79 schools concerned vacated the premises within five years of completion of improvement works, mainly due to drop in student enrolment. The average cost of the improvement works for the 26 schools was \$19 million per school (paras. 2.20 to 2.24).

Allocating VSP for educational or other uses

6. The EDB's database on VSP showed that, as at 30 April 2015, of the 234 VSP, 105 (45%) were not being used, 102 (44%) were being used and 27 (11%) had been or would be demolished for housing or other developments (para. 3.5).

7. ***29 VSP under EDB's purview not being used.*** The 105 VSP not being used as at 30 April 2015 included 29 that had not been returned by the EDB to the Government. The 29 VSP, mostly located in Hong Kong Island and Kowloon, comprised: (a) 8 VSP that had not been earmarked for any use. The 8 schools concerned had ceased operation for 1.6 to 10.6 years (averaging 6.4 years); (b) 9 VSP that had been earmarked for school uses for 0.1 to 6.3 years (averaging 3.9 years) but had yet to be allocated for such uses. The 9 schools concerned had ceased operation for 1.6 to 15.6 years (averaging 6 years); and (c) 12 VSP that had been allocated for school or other educational uses for 0.3 to 7.8 years (averaging 2.2 years) but had not yet been put to such uses. The 12 schools concerned had ceased operation for 1.6 to 11.6 years (averaging 6.4 years). The EDB needs to put the 29 VSP to good use expeditiously (paras. 3.6 to 3.11).

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8. ***73 VSP under LandsD's purview not being used.*** The 105 VSP not being used as at 30 April 2015 also included 73 considered by the EDB as not suitable for educational uses which had been returned to the LandsD for consideration of alternative uses. The 73 VSP were mostly located in the New Territories. The 73 schools concerned had ceased operation for 0.6 to 35.6 years (averaging 12.1 years). Audit found that there was room for improvement in the LandsD's arrangements for providing interested parties with ready access to updated and complete information about VSP available for short-term uses (paras. 3.13 to 3.16).

9. ***VSP partially utilised or allocated for temporary uses for a long period.*** The 102 VSP being used as at 30 April 2015 included 77 that were under the EDB's purview. Audit found that 4 of the 77 VSP were only partially utilised for the allocated uses, including 3 VSP each having about half of the floors/blocks not being used. Audit also found that another 14 of the 77 VSP had not been earmarked for any specific long-term educational uses. The 14 VSP were allocated for temporary uses only, including 4 VSP that had been allocated for temporary uses to various parties for over six years (paras. 3.26 to 3.28).

Handling cases of VSP not surrendered

10. Upon cessation of school operation, school premises on government land are required to be returned to the Government. For school premises on private land, where the LandsD had granted the land to the school sponsoring body (SSB) by land lease containing a cessation/diminution of user clause (usually private treaty grant at nil or nominal premium), the Government has the right to re-enter the site (para. 4.2).

11. ***Physical possession of 71 VSP not delivered to the Government.*** As at 30 April 2015, physical possession of 71 VSP had not been delivered to the Government after cessation of school operation, comprising 9 on government land and 62 on private land. For the 9 VSP on government land, the 9 schools concerned had ceased operation for 6.6 to 18.6 years (averaging 11.2 years). For the 62 VSP on private land, the land leases of at least 34 VSP contain a cessation/diminution of user clause. Among the 71 VSP, 41 were not being used. The uses of the remaining 30 VSP were mainly arranged by the SSBs but not through the EDB's or LandsD's

Executive Summary

established mechanism for handling VSP and, therefore, such VSP might not have been put to optimal uses for the effective implementation of the EDB's education policies. There is a need to review the handling of the 71 cases of VSP and expedite action to take appropriate actions (paras. 4.3 to 4.10).

12. *Need to improve handling of school reprovisioning cases.* In reprovisioning a school on private land, EDB staff were required to include in the service agreement with the SSB a surrender clause specifying that the SSB should voluntarily surrender the existing school site and premises. Audit case studies revealed that: (a) in one case, the surrender clause was omitted from the service agreement; (b) in another case, the surrender clause in the service agreement was nullified by a side agreement between the EDB and the SSB; and (c) in yet another case, the surrender clause in the service agreement required the SSB to carve out only a portion from the private treaty grant site for returning to the Government, but road access and utility connection problems made it difficult for the Government to use the carved-out site (paras. 4.14 to 4.18).

Property management of VSP

13. *Contracts awarded to a supplier not on the EDB supplier lists.* In the two quotation exercises conducted by the EDB in 2014-15 for procuring property management services for VSP, contracts were awarded to the only bidder, which was the contractor of the existing contract and not on the EDB's supplier lists. The EDB needs to widen the pool of potential service providers which may be invited to submit quotations (paras. 5.9 and 5.11).

14. *Inadequacies in monitoring contractor performance.* The EDB conducted inspections on an ad-hoc basis to the VSP managed by contractors. However, the inspection officer did not keep comprehensive records of all inspections. Moreover, the EDB did not follow the requirement of the Stores and Procurement Regulations to evaluate the performance of contractors upon completion of the contract (paras. 5.16 and 5.17).

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Audit recommendations

15. Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Secretary for Education should:

Identifying VSP

- (a) follow up VSP not identified and handled in accordance with the established mechanism, and improve the mechanism for maintaining a comprehensive database on VSP (para. 2.18(a) and (b));
- (b) enhance transparency on uses of VSP arising from all kinds of reasons (para. 2.18(e));
- (c) critically evaluate all relevant factors in planning for and approving school improvement/extension works in the future (para. 2.26);

Allocating VSP for educational or other uses

- (d) review the 29 VSP not being used and take measures to improve the mechanism for handling VSP (para. 3.19(a));
- (e) review whether the eight VSP not earmarked for any use should be returned to the Government for consideration of alternative uses (para. 3.19(b));
- (f) regularly review the need to retain the earmarked VSP and closely monitor the follow-up actions after allocation of a VSP to avoid unnecessary delay in putting the VSP to use (para. 3.19(c) and (d));
- (g) explore ways to maximise the utilisation of the under-utilised VSP and regularly review the need to retain those VSP that had been allocated only for temporary uses for a long period of time (para. 3.29);

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Handling cases of VSP not surrendered

- (h) in conjunction with the Director of Lands, expedite action to take appropriate actions on the 71 VSP the physical possession of which has not been delivered to the Government after cessation of school operation, and review the recording and monitoring mechanism (para. 4.11(a) and (c));
- (i) strengthen the control over school reprovisioning cases to prevent recurrence of incidents of omitting a surrender clause in the service agreement or deviating from the standard surrender arrangement (para. 4.19(a) and (b));
- (j) for the school reprovisioning case in which the SSB was required to surrender only a portion of the old school premises, consult the LandsD on how to take forward the carving out and surrender of the school so as to make the surrendered site accessible and usable (para. 4.19(c));

Property management of VSP

- (k) maintain a comprehensive list of service providers of property management services for procuring property management services for VSP (para. 5.12); and
- (l) review the mechanism for inspecting VSP managed by contractors and evaluate the contractor's performance upon completion of a contract (para. 5.19(a) and (b)).

16. Audit has *recommended* that the Director of Lands should ensure that interested parties have ready access to updated and complete information about VSP available for application for short-term uses (para. 3.20).

Response from the Government

17. The Secretary for Education and the Director of Lands agree with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Primary and secondary education

1.2 Primary schooling in Hong Kong starts at the age of around six and there are six years of schooling at the primary level. Since the implementation of a new academic structure in September 2009, students completing primary education can further their studies in six years of secondary education (i.e. three years of junior secondary and three years of senior secondary education).

1.3 The Education Bureau (EDB — Note 1) is responsible for formulating policies on education and overseeing the effective implementation of educational programmes. In respect of primary and secondary education, the Government's policy objectives are to provide nine years' free and universal primary and junior secondary education to all children attending public sector schools. Starting from the 2008/09 school year, senior secondary education has been provided free through public sector schools.

1.4 Public sector schools comprise:

- (a) government schools, which are operated by the Government;
- (b) aided schools, which are fully subvented by the Government and managed by the incorporated management committee (IMC) or school management committee; and

Note 1: *In January 2003, the then Education Department was merged with the then Education and Manpower Bureau. In July 2007, the Bureau was renamed as the EDB upon the reorganisation of the Government Secretariat.*

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- (c) caput schools, which are non-profit-making private secondary schools in receipt of government subsidy since 1971 when the Government introduced a Bought Place Scheme.

Apart from public sector schools, ordinary local schools also include Direct Subsidy Scheme schools and private schools, some of which receive financial assistance from the Government. Table 1 shows an analysis of the ordinary local schools in operation as at mid-September of the 2014/15 school year (i.e. 15 September 2014).

Table 1
Number of ordinary local primary and secondary schools
and student enrolment
(15 September 2014)

Type of schools		No. of schools	No. of students
<i>Primary schools</i>			
Public sector schools	Government	34 (6%)	21,131 (7%)
	Aided	418 (80%)	245,022 (79%)
Direct Subsidy Scheme schools and private schools		74 (14%)	42,954 (14%)
Total		526 (100%)	309,107 (100%)
<i>Secondary schools</i>			
Public sector schools	Government	31 (6%)	23,540 (7%)
	Aided	362 (76%)	277,105 (78%)
	Caput	2 (<0.5%)	1,465 (<0.5%)
Direct Subsidy Scheme schools and private schools		84 (18%)	54,579 (15%)
Total		479 (100%)	356,689 (100%)

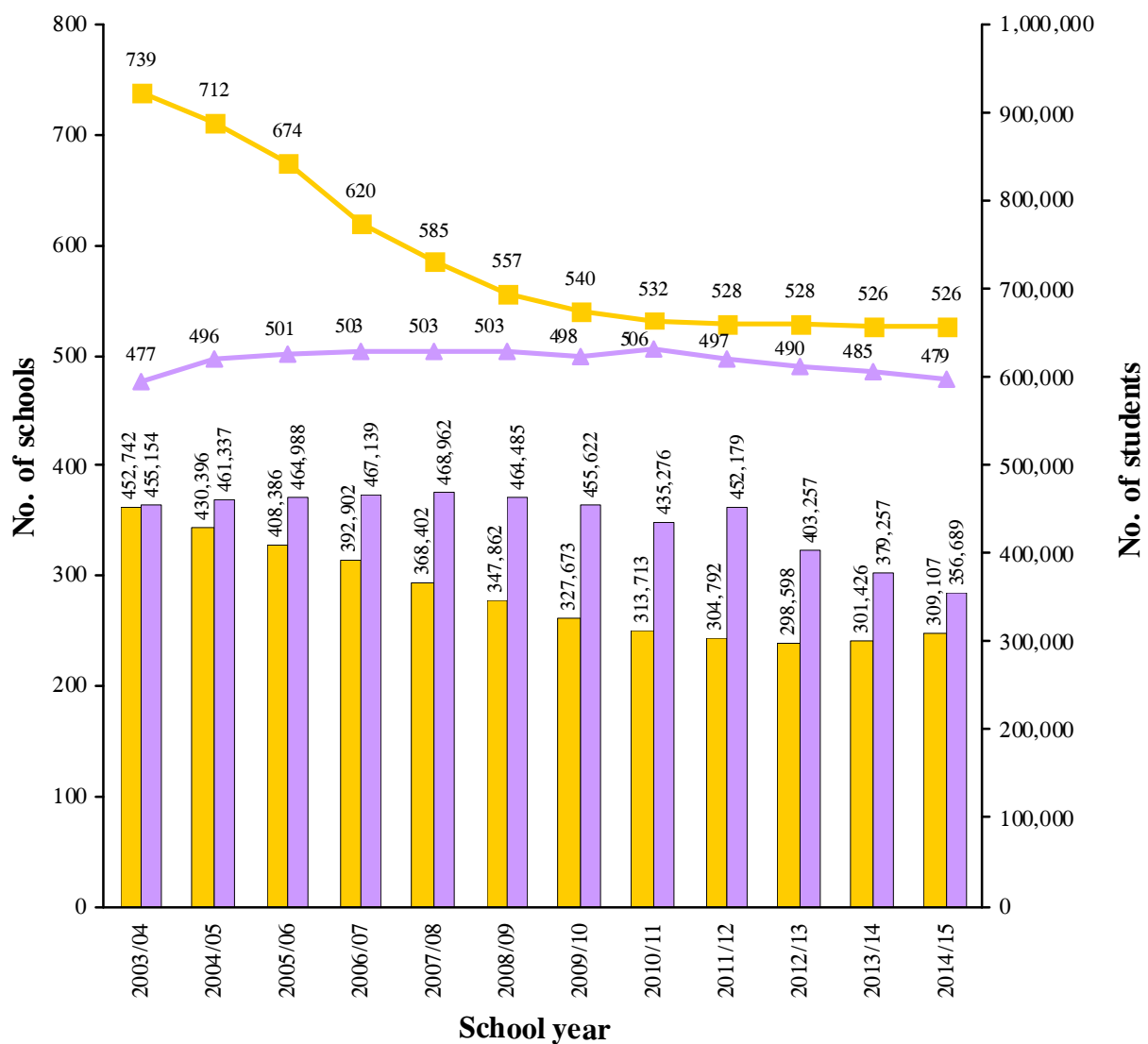
Source: EDB records

Remarks: 1 government and 3 aided primary schools had a.m. and p.m. sessions, and 1 aided primary school had p.m. and full-day sessions. Each of them was counted as two schools.

1.5 In the past 12 years, the number of students in ordinary local primary schools decreased by 32% from 452,742 in 2003/04 to 309,107 in 2014/15. The number of students in ordinary local secondary schools also decreased by 22% from 455,154 to 356,689. Figure 1 shows the details.

Figure 1

Number of ordinary local primary and secondary schools and student enrolment (2003/04 to 2014/15)



- Legend:
- Ordinary local primary schools
 - ▲ Ordinary local secondary schools
 - Ordinary local primary school students
 - Ordinary local secondary school students

Source: EDB records

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Special education

1.6 Hong Kong provides special education services for children with special educational needs (e.g. visual impairment, hearing impairment, physical disability and intellectual disability). Under the prevailing policy, subject to the assessment and recommendation of the specialists and with parents' consent, children with more severe or multiple disabilities are placed in special schools for intensive support. Other children with special educational needs may attend ordinary schools.

1.7 The EDB is responsible for the planning, development, monitoring and operation of all special education services. There are 60 public sector special schools in the 2014/15 school year, providing special education services for 7,643 students. These 60 special schools are aided schools receiving subvention from the Government.

Vacant school premises

1.8 Public sector and Direct Subsidy Scheme schools generally operate at government-built premises (Note 2). The EDB conducts School Allocation Exercises from time to time to invite school sponsoring bodies (SSBs) to apply for new or vacant school premises for operating such schools (and other schools such as international schools). The School Allocation Committee (Note 3) considers applications in accordance with a set of criteria. It recommends suitable SSBs to the Permanent Secretary for Education for allocation of the school premises.

1.9 When SSBs cease to use their existing school premises located on government land (or in public housing estates under the Hong Kong Housing Authority) to operate their schools for various reasons such as closing the schools, re-provisioning the schools to other premises and merging with other schools, they have to cease to occupy and relinquish possession of the existing premises.

Note 2: *According to the Hong Kong Planning Standards and Guidelines, the reference site area of a 30-classroom primary school is 6,200 square metres (m²) and that of a 30-classroom secondary school is 6,950 m².*

Note 3: *The Committee, established in 1999, is chaired by a Deputy Secretary for Education and consists of both official and non-official members.*

1.10 As regards schools with existing school premises located on private land (including land granted under private treaty grant (PTG)), if they are reprovisioned to other premises through School Allocation Exercises, the SSBs are required to return their existing school premises to the Government as a condition of reprovisioning under the EDB's service agreement with the SSBs. If the schools cease to operate for reasons other than reprovisioning, the SSBs are required to handle the existing premises in accordance with the conditions of the land lease, including returning them to the Government if so required under the land lease.

1.11 According to the EDB, the premises of schools that have ceased to operate for various reasons such as closing, reprovisioning and merger are referred to as vacant school premises (VSP). The schools involved were mainly public sector, Direct Subsidy Scheme and private ordinary local primary and secondary schools. Subsequent to the cessation of school operation, the VSP would be reallocated to suitable SSBs for operating schools, redeployed for other educational uses or returned to the Government for consideration of alternative uses if it is confirmed that they are no longer required for school or other educational uses.

1.12 In 2003, the EDB estimated that the total school age population aged 6 to 11 would decrease by 17% from 493,000 in 2002 to 410,600 in 2010, which would result in a sharp decrease in the demand for primary schools. Under the policy on consolidation of under-utilised primary schools (Consolidation Policy) implemented since the 2003/04 school year, public sector primary schools not meeting the minimum threshold number of primary one students (Note 4) will not be allocated primary one class and may subsequently cease operation. The Consolidation Policy has resulted in a number of VSP.

1.13 Since July 2005, the Infrastructure and Research Support Division (IRSD) under the Planning, Infrastructure and School Places Allocation Branch of the EDB (see Appendix A) has been tasked to handle VSP. The IRSD, headed by a Principal Assistant Secretary for Education, is responsible for:

Note 4: *The minimum threshold number was 23 between 2003/04 and 2007/08, 21 for 2008/09 and 16 starting from 2009/10.*

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- (a) processing proposals of using VSP;
- (b) management of VSP under the EDB's purview;
- (c) handling land administration matters of VSP (in particular, liaison with the Lands Department (LandsD));
- (d) handling enquiries from the public, the Housing Department (HD) and other government bureaux and departments (B/Ds); and
- (e) planning School Allocation Exercises and providing secretarial support to the School Allocation Committee, including processing of applications and preparation of papers.

1.14 The EDB has established a mechanism for handling VSP. For VSP suitable for educational uses, the EDB aims to put them to gainful use in the shortest possible time. For other VSP, the EDB aims to return them to relevant departments (mainly the LandsD and the HD) in an expeditious manner for consideration of alternative uses.

1.15 As at 30 April 2015, the IRSD record showed that there were 105 VSP not being used. The record maintained by the IRSD between July 2005 and April 2015 comprised a total of 234 VSP, including the 105 VSP that were not being used as at 30 April 2015 and other 129 VSP that were being used or had been or were going to be demolished for housing or other developments.

Audit review

1.16 In January 2015, the Audit Commission (Audit) commenced a review of the use and disposal of VSP contained in the IRSD's database on VSP. The review has focused on the following areas:

- (a) identifying VSP (PART 2);
- (b) allocating VSP for educational or other uses (PART 3);

- (c) handling cases of VSP not surrendered (PART 4); and
- (d) property management of VSP (PART 5).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

Acknowledgement

1.17 Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the EDB and the LandsD during the course of the audit review.

PART 2: IDENTIFYING VACANT SCHOOL PREMISES

2.1 This PART examines the identification of VSP and related issues, focusing on the following areas:

- (a) identifying VSP (paras. 2.2 to 2.19); and
- (b) VSP having undergone improvement works (paras. 2.20 to 2.27).

Identifying vacant school premises

EDB's mechanism for handling VSP

2.2 The EDB has established a mechanism for handling VSP to facilitate advance planning with a view to putting VSP to gainful use in the shortest possible time and early disposal of VSP not required by the EDB. The mechanism is summarised below (see Appendix B for a flow chart):

- (a) ***Identifying VSP.*** After taking on the responsibilities for handling VSP in July 2005, the IRSD has maintained a database on VSP. A list of VSP was compiled based on information available in July 2005 and updated over the years mainly based on information of vacant/to-be-vacated school premises provided by the Regional Education Offices (REOs — Note 5);

Note 5: *The EDB set up four REOs in July 2000 to provide support services to schools and the public at the district level, including handling of matters relating to the closure and reprovisioning of schools. The REOs are located in Hong Kong, Kowloon, New Territories East and New Territories West.*

- (b) **Screening VSP.** Every six months the IRSD issues a list of VSP not yet earmarked for any use and a list of VSP with earmarked uses to subject EDB Divisions (Note 6) requesting them to make proposals on the long-term or short-term uses of the VSP for delivering policy objective under their respective purview. The size, location and physical conditions of the VSP will be considered in determining whether they are suitable for allocation for mainstream school uses (i.e. primary schools, secondary schools and special schools, including international schools) or other educational uses (e.g. post-secondary education);

- (c) **VSP suitable for mainstream school uses or other educational uses.** The IRSD will conduct School Allocation Exercises to allocate such VSP to suitable SSBs. Since October 2011, clearance from the Planning Department (PlanD) needs to be obtained before allocating VSP for educational uses other than mainstream school uses (see paras. 2.3 to 2.5); and

- (d) **VSP not suitable for mainstream school uses or other educational uses.** The IRSD will return the VSP to the relevant departments (mainly the LandsD and the HD) for their consideration of alternative uses. Since October 2011, the EDB needs to inform the PlanD of such VSP beforehand for clearance purposes (see paras. 2.3 to 2.5 — Note 7).

Note 6: *The subject EDB Divisions comprise Higher Education Division, Further Education Division, Education Commission and Planning Division, Professional Development and Training Division, Special Education and Kindergarten Education Division, School Administration Division, School Development Division, Curriculum Development Institute, Quality Assurance and School-based Support Division, Education Infrastructure Division and Administration Division.*

Note 7: *According to the EDB, “return” of VSP by the EDB to the Government means that the EDB has decided that the VSP are not suitable for mainstream school uses or other educational uses and has informed the PlanD and other relevant departments to consider alternative uses in accordance with the prevailing applicable arrangements. Some school premises remain in possession with the private lot owners/SSBs and some have been reallocated for alternative use after cessation of school operation by the SSBs. The return of VSP as referred to in various PARTS of this Audit Report does not necessarily mean that a VSP has been returned physically in all cases.*

Identifying vacant school premises

Central clearing house mechanism

2.3 In November 2005, an inter-departmental meeting convened by a Deputy Secretary of the EDB was held to discuss how the Government as a whole should make the best use of VSP. It was agreed that the EDB would pass the list of VSP not suitable for educational uses to the PlanD to identify long-term uses of the sites and to the Government Property Agency (GPA) to study the potential uses of the premises concerned. The management responsibility of such VSP was discussed but no conclusion was reached (see Appendix C).

2.4 In October 2011, at a meeting held by the then Steering Committee on Housing Land Supply (Note 8), the Members agreed that supply of land for housing was a top policy priority. The EDB, in passing vacant or to-be-vacated school sites directly to other departments for alternative uses, should report all such sites to the PlanD in the first instance so that the PlanD could serve as a central clearing house. The PlanD could consider suitable alternative uses for the sites in an efficient and coordinated manner. However, this would not make the PlanD the management agent for the sites before their reallocation (see Appendix C).

2.5 From October 2011 onwards, following the introduction of the central clearing house mechanism, the EDB only retains premises for mainstream school uses and reports to the PlanD the VSP not required for mainstream school uses. Should the EDB need any VSP for educational uses other than mainstream schools, the EDB, like any other B/Ds, has to submit its application for the proposed use with sound justifications for the PlanD's consideration.

Note 8: *The Committee, chaired by the Financial Secretary, was set up in October 2010 to coordinate the efforts of B/Ds in making available land for housing development. It has been reorganised into the Steering Committee on Land Supply since February 2013 to coordinate the overall plans for development and supply of land in Hong Kong for different types of land uses.*

Master list of VSP

2.6 In May 2015, Audit requested the IRSD to provide a master list of VSP. The IRSD provided Audit with a list of 234 VSP known to it between July 2005 and 30 April 2015, based on the database on VSP maintained by it since July 2005 (see para. 2.2(a)). As can be seen in Table 2, 188 (80%) of the 234 schools concerned were primary schools. Figure 2 shows an analysis of the school years in which the 234 schools ceased operation.

Table 2
Record of 234 VSP kept by the IRSD
(July 2005 to 30 April 2015)

		Type of school				
		Primary school	Secondary school	Special school	Post-secondary institution	Total
Public sector schools	Government	4	6	–	–	10
	Aided	177	22	5	–	204
	Caput	–	2	–	–	2
Direct Subsidy Scheme schools and private schools		4	7	–	–	11
Others (Note 1)		1	1	–	2	4
Unknown (Note 2)		2	–	–	1	3
Total		188 (80%)	38 (17%)	5 (2%)	3 (1%)	234 (100%)

Source: Audit analysis of EDB records

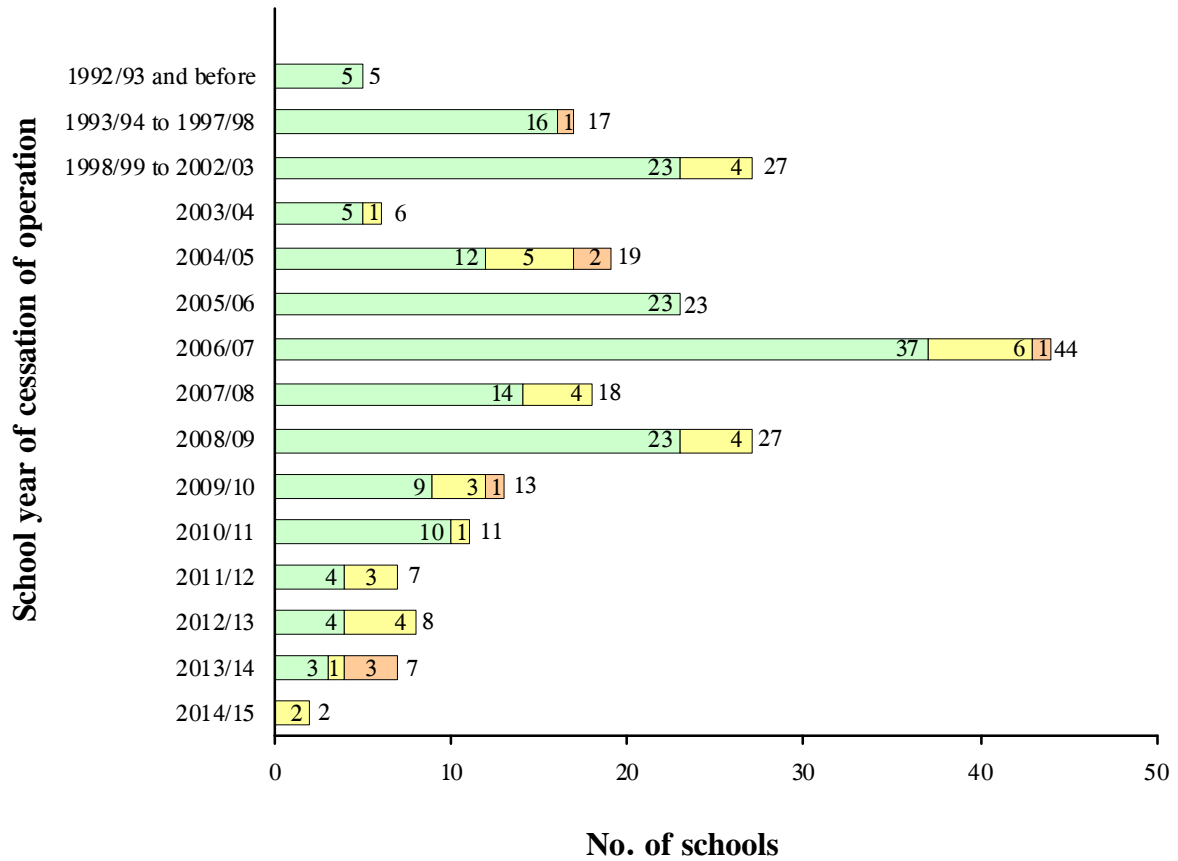
Note 1: They include schools of English School Foundation and Bought Place Scheme (now obsolete).

Note 2: The information was not shown in EDB records.

Identifying vacant school premises

Figure 2

Analysis of 234 VSP by school year of cessation of operation



Legend: ■ Primary schools
■ Secondary schools
■ Special schools and post-secondary institutions

Source: *Audit analysis of EDB records*

Some VSP not identified and handled in accordance with established mechanism

2.7 As mentioned in paragraph 2.2(a), the IRSD maintains a database on VSP mainly based on information provided by the REOs. The EDB also maintains a school registration database (Note 9) to record details of registered/de-registered schools containing information about their cessation of operation, which could be used for identifying VSP. Using such information in the school registration database up to 30 April 2015, Audit sample check revealed 14 VSP not included in the list of 234 VSP kept by the IRSD. Of the 14 schools, 1 ceased operation in 1946 and 12 ceased operation between 1989 and 2011 (date of cessation of operation of the remaining school not shown in the database).

2.8 The IRSD confirmed in July 2015 that it was not aware of the 14 VSP until enquired by Audit. It indicated that 8 VSP were premises of private schools.

2.9 For private schools with premises built on sites granted by the Government, like aided schools on private land, the SSBs concerned may be required to surrender the sites to the Government upon cessation of school operation if the leases contain a cessation/diminution of user clause (see para. 4.2(b)). The VSP of the 8 private schools should have been handled in a way similar to aided schools. In fact, the list of 234 VSP kept by the IRSD between July 2005 and 30 April 2015 included a number of private schools (Note 10).

Note 9: *The School Registration and Compliance Section under the Curriculum and Quality Assurance Branch is responsible for inputting data of schools such as name, address, finance mode, course details and classroom accommodation into the school registration database. The database system is maintained by the Education Information System Section under the Corporate Services Branch.*

Note 10: *Upon enquiry, the LandsD informed Audit in October 2015 that the leases of the 8 private schools did not contain a cessation/diminution of user clause. Similarly, the LandsD also informed Audit that for 30 VSP on the IRSD list of 234 VSP which were on private land, the leases did not contain a cessation/diminution of user clause (see para. 4.7).*

Identifying vacant school premises

2.10 In Audit's view, the EDB should review the 14 VSP not included in the IRSD's database on VSP and find out whether there were other cases of VSP that had not been included, and take appropriate follow-up action. The EDB should also review the existing mechanism in compiling the database on VSP and take improvement measures.

2.11 In this connection, Audit notes that the EDB has not issued a comprehensive manual to lay down requirements and provide guidelines on the identification, screening, allocation and management of VSP. In Audit's view, such manual will help ensure that all relevant units including the IRSD, subject EDB Divisions and REOs understand the requirements clearly and handle VSP properly.

Delay in conducting half-yearly exercises to determine uses of VSP

2.12 Under the EDB's mechanism for handling VSP, the IRSD is required to issue a list of VSP not yet earmarked for any use and a list of VSP with earmarked uses to subject EDB Divisions half-yearly, and request them to make proposals on the uses of the VSP (see para. 2.2(b)). The IRSD has so far conducted 16 such exercises since 2005 (see para. 2.2(a)). Table 3 shows the details.

Table 3

16 half-yearly exercises conducted to determine uses of VSP

Exercise	Date exercise commenced	Time elapsed since preceding exercise (Month)
1	August 2005	N/A
2	May 2006	9
3	December 2006	7
4	July 2007	7
5	January 2008	6
6	August 2008	7
7	January 2009	5
8	September 2009	8
9	May 2010	8
10	December 2010	7
11	July 2011	7
12	May 2012	10
13	April 2013	11
14	October 2013	6
15	August 2014	10
16	April 2015	8

Source: Audit analysis of EDB records

2.13 As shown in Table 3, most of the exercises were conducted more than six months after the preceding exercise. In particular, three of the latest five exercises were conducted 10 or 11 months after the preceding exercise. Upon enquiry, the IRSD informed Audit in August 2015 that the half-yearly updating exercise was not the only channel for the EDB to determine the uses of VSP. There were also ongoing internal discussions within the EDB on the uses of VSP throughout the year outside the context of the half-yearly updating exercises

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(e.g. when the same VSP was earmarked by different divisions for competing uses). In Audit's view, the EDB should ensure that the exercises are conducted half-yearly in accordance with the mechanism to facilitate putting VSP to gainful use in the shortest possible time.

Room for enhancing transparency on uses of VSP

2.14 After the implementation of the Consolidation Policy in 2003/04 (see para. 1.12), in view of the increasing number of VSP and concerns about the use of VSP, the EDB has submitted two papers on the use and disposal of VSP to the Legislative Council (LegCo) Panel on Education for discussion on 14 May 2007 and 11 June 2012 respectively. In both papers, the EDB provided information mainly on primary schools that had ceased operation under the Consolidation Policy.

2.15 From time to time, at LegCo meetings, LegCo Members have raised questions about uses of VSP. It has also become a regular question since 2005-06 when the annual Estimates of Expenditure of the Government were submitted to LegCo Finance Committee for examination. For some questions, LegCo Members specifically requested information on schools that had been closed because of under-enrolment. Other questions included those asking for information on VSP as at a specified date.

2.16 In response to questions about VSP, the EDB has mainly provided information on uses of the following VSP:

- (a) VSP of primary schools that had ceased operation due to the Consolidation Policy since 2003/04;
- (b) VSP of secondary schools that had ceased operation due to various reasons since 2003/04; and
- (c) VSP of secondary schools that had merged with other schools since 2003/04.

For example, in March 2015, the EDB disclosed that the numbers of VSP in (a), (b) and (c) above were 88, 17 and 3 respectively (i.e. 108 VSP in total).

2.17 Audit noted that the information mentioned in paragraph 2.16(a) to (c) did not cover all VSP in the database maintained by the IRSD (234 VSP known to the IRSD between July 2005 and 30 April 2015 — see para. 2.6). For example, the information did not cover school premises vacated before 2003/04 or primary schools that had ceased operation due to reasons other than the Consolidation Policy since 2003/04. In Audit's view, the EDB should consolidate information on VSP arising from all kinds of reasons, and enhance transparency on uses of VSP.

Audit recommendations

- 2.18 **Audit has recommended that the Secretary for Education should:**
- (a) **review the 14 cases of VSP that had not been brought to the IRSD's attention before as found by Audit and find out whether there were other similar cases, and take follow-up action on the VSP concerned according to the established mechanism;**
 - (b) **take measures to improve the mechanism for identifying VSP and maintaining a comprehensive database on VSP;**
 - (c) **consider issuing to all sections concerned a comprehensive manual to lay down requirements and provide guidelines on the identification, screening, allocation and management of VSP;**
 - (d) **conduct exercises to determine uses of VSP half-yearly in accordance with the established mechanism; and**
 - (e) **enhance transparency on uses of VSP arising from all kinds of reasons.**

Response from the Government

2.19 The Secretary for Education agrees with the audit recommendations. He has said that the EDB would:

Identifying vacant school premises

- (a) review the 14 cases of VSP not brought to the IRSD's attention through searching records within the EDB, as well as consulting the LandsD and the HD about the land status, lease conditions and the current use of the VSP and, subject to the advice of the LandsD and the HD, take follow-up action according to the established mechanism. The EDB would also check whether there are other similar cases and take follow-up action accordingly;
- (b) improve the maintenance of the database on VSP to make it more comprehensive and systematic as far as practicable;
- (c) issue a comprehensive internal manual covering the requirements and guidelines on the identification, screening, allocation and management of VSP to ensure understanding of the requirements and procedures involved by all related EDB sections;
- (d) ensure that future exercises would be conducted every half year to invite proposals from all sections on uses of VSP; and
- (e) endeavour to enhance transparency on the use of VSP.

Vacant school premises having undergone improvement works

School Improvement Programme

2.20 The School Improvement Programme was a policy initiative implemented between 1994 and 2007 to bring up the facilities of all government and aided primary, secondary and special schools to the prevailing standards in-situ as far as practicable. The improvement works included provision of additional space and facilities for teaching, out-of-class activities and supporting services for teachers and students.

2.21 The EDB, among other considerations from the education perspective, set a general principle that if the school premises could be used for five years or more after completion of the improvement works, the school would be included in the Programme. Between 1994 and 2007, the Programme covered some 740 schools.

79 VSP included in School Improvement Programme

2.22 Audit noted that, of the 234 VSP in the IRSD’s database, 79 had been included in the School Improvement Programme. Of the 79 schools concerned, 4 vacated the premises before completion of improvement works and 22 vacated the premises within five years after. These 26 schools did not meet the criteria set by the EDB for including schools in the Programme (see para. 2.21). Table 4 shows the reasons for vacating these 26 school premises after approval of improvement works.

Table 4
26 school premises vacated before or within 5 years after completion of improvement works

Reasons for vacating the premises after approval of works	No. of school premises vacated				
	Before completion of works	Less than 1 year after	1 to less than 3 years after	3 to less than 5 years after	Total
Drop in student enrolment	-	1	2	11	14
Reprovisioning of the school	2	-	1	2	5
School merger	1	-	-	1	2
Others (e.g. redevelopment of the housing estate)	1	-	1	3	5
Total	4	1	4	17	26

Source: Audit analysis of EDB records

2.23 Table 4 shows that the main reason for the schools to vacate the premises before or within 5 years after completion of improvement works was drop in student enrolment (14 out of 26 cases). Audit conducted a case study on one of these 14 cases (see Case 1) and found that the school was already seriously under-enrolled when improvement works commenced.

Case 1

Improvement works conducted for an under-enrolled school

1. In 2000/01, School A had 24 classrooms but was operating only nine classes.
2. The school was included in the School Improvement Programme. The scope of works included building a new six-storey annex block with lift tower. The new annex provided a number of additional rooms, a covered playground and a flat roof, increasing the total floor area by about 1,400 m². The preliminary study started in 2001. The works commenced in July 2003 and completed in July 2005 at a cost of about \$33 million funded by the Government.
3. After failing to meet the minimum threshold number of 23 students for primary one class for 2003/04, the school was closed in September 2006 under the Consolidation Policy. The school premises was used for only one year after completion of the improvement works.
4. The school premises was allocated to two non-governmental organisations (NGOs) in 2009. After further renovation works, one NGO used the premises as office and the other for other educational use.
5. Upon enquiry, the EDB informed Audit in August 2015 that as at September 2001, School A was operating a full primary curriculum of primary one to six and there was no sign that the school would be closed within a few years. However, with the implementation of the Consolidation Policy in 2003/04, School A ceased to operate classes of primary one level which was unforeseen when the EDB decided to arrange improvement works for it.

Source: Audit analysis of EDB records

2.24 The average cost of the improvement works for the 26 schools that ceased operation before or within five years after completion of works was about \$19 million per school. As at 30 April 2015, of the 26 VSP, 12 had been reallocated for school uses. Of the other 14 VSP, 5 had been reallocated for office or other uses, 3 had been demolished and 6 were not being used. Therefore, the improvement works could benefit the students for only a short period before the school premises were vacated.

2.25 While the School Improvement Programme was completed in 2007, the EDB provides school improvement works or school extension works for schools from time to time. In planning for and approving future school improvement/extension works, the EDB should critically evaluate all relevant factors such as decline in the student population, school reprovisioning plans and housing redevelopment plans, in order that the works can deliver fully the intended benefits for the students.

Audit recommendation

2.26 **Audit has *recommended* that the Secretary for Education should critically evaluate all relevant factors, including continued use of the premises concerned, in planning for and approving school improvement/extension works in the future.**

Response from the Government

2.27 The Secretary for Education agrees with the audit recommendation. He has said that the EDB will continue to critically evaluate all relevant factors in planning for and approving school improvement/extensions in the future.

PART 3: ALLOCATING VACANT SCHOOL PREMISES FOR EDUCATIONAL OR OTHER USES

3.1 This PART examines the allocation of the 234 VSP known to the IRSD between July 2005 and 30 April 2015 (see para. 2.6) for educational or other uses, focusing on the following two categories of VSP:

- (a) school premises not being used (paras. 3.6 to 3.24); and
- (b) school premises being used (paras. 3.25 to 3.30).

3.2 The EDB has an established mechanism for handling VSP (see para. 2.2). For VSP suitable for educational uses, the EDB aims to put them to gainful use in the shortest possible time. For other VSP, the EDB aims to return them to relevant departments (mainly the LandsD and the HD) in an expeditious manner for consideration of alternative uses.

3.3 To achieve these objectives, the EDB planned ahead on the use of to-be-vacated school premises so that they might be reused as soon as possible after cessation of school operation. However, for some school premises, the EDB and the LandsD had to deal with related legal and land matters, including the problem of SSBs unwilling to surrender the school premises to the Government after cessation of school operation in accordance with the land documents.

3.4 This PART reports the audit findings on the allocation of the 234 VSP for educational or other uses. PART 4 reports the audit findings on the handling of cases of VSP not surrendered by SSBs.

Allocating vacant school premises for educational or other uses

- 3.5 The status of the 234 VSP as at 30 April 2015 is summarised as follows:
- (a) 105 (45%) premises not being used (29 under EDB, 73 under LandsD and 3 under HD);
 - (b) 102 (44%) premises being used (77 under EDB, 17 under LandsD and 8 under HD, GPA or Home Affairs Department); and
 - (c) 27 (11%) premises having been or going to be demolished for housing or other developments.

School premises not being used

- 3.6 The 105 VSP that were not being used as at 30 April 2015 comprised:
- (a) 29 VSP under the EDB's purview. They had not been returned to the Government (see paras. 3.7 to 3.11); and
 - (b) 76 VSP considered by the EDB as not suitable for educational uses. They had been returned to the Government (see paras. 3.12 to 3.18).

VSP under EDB's purview and not being used

3.7 The 29 VSP under the EDB's purview and not being used as at 30 April 2015 were mostly located in Hong Kong Island and Kowloon. The site areas of 27 of the 29 VSP ranged from 660 to 6,424 m² (averaging 2,650 m² — Note 11). Table 5 shows the status of these 29 VSP.

Note 11: *The EDB had no records about the site areas of the other 2 VSP.*

Allocating vacant school premises for educational or other uses

Table 5

**29 VSP under EDB's purview and not being used
(30 April 2015)**

Status	No. of VSP	
Not earmarked for any use	8	
Earmarked for mainstream school use	5	} 9 not yet allocated
Earmarked for temporary school use	4	
Allocated for mainstream school use	6	} 12 not yet put to use
Allocated for temporary school use (Note)	4	
Allocated for education centre use	1	
Allocated for office use	1	
Total	29	

Source: Audit analysis of EDB records

Note: 3 VSP were allocated for operation of time-limited schools and 1 for kindergarten.

Remarks: Physical possession of 9 of the 29 VSP had not been delivered to the Government after cessation of school operation (comprising the 8 VSP not earmarked for any use and 1 of the 4 VSP allocated for temporary school use). The 9 VSP were on private land (see Table 11 in para. 4.3).

Allocating vacant school premises for educational or other uses

3.8 *8 VSP not earmarked for any use.* Of the 29 VSP that were not being used as at 30 April 2015, eight had not been earmarked for any use. According to EDB records, 1.6 to 10.6 years (averaging 6.4 years) had elapsed since the cessation of operation of the eight schools concerned (see Table 6 — Note 12). The EDB should review whether these eight VSP should be returned to the Government for consideration of alternative uses (see also para. 4.18 regarding School H).

Table 6

**8 VSP under EDB's purview and not being used
and had not been earmarked for any use
(30 April 2015)**

School	District	Site area (m ²)	Year of cessation of school operation	Time elapsed since cessation of school operation (Year)
B	Southern	2,390	2004	10.6
C	Yuen Long	No record	2004	10.6
D	Central and Western	1,631	2005	9.6 (Note)
E	Wan Chai	2,660	2008	6.6 (Note)
F	Sham Shui Po	No record	2008	6.6
G	Shatin	6,424	2012	2.6
H	Southern	6,070	2012	2.6
I	Kowloon City	3,239	2013	1.6

Source: Audit analysis of EDB records

Note: According to EDB records, Schools D and E had been deployed for temporary uses for 4.8 years and 4.7 years respectively (see Note 12 to para. 3.8).

Note 12: *According to the EDB, the IRSD's database on VSP did not contain comprehensive records showing the actual periods of vacancy of the 234 VSP known to the IRSD between July 2005 and 30 April 2015 including periods, if any, that the premises have been deployed for temporary uses, in particular those that had been returned to the Government.*

Allocating vacant school premises for educational or other uses

3.9 **9 VSP not yet allocated for earmarked uses.** Five VSP earmarked for mainstream school use and four for temporary school use had not yet been allocated for such uses as at 30 April 2015. The nine VSP had been so earmarked by subject EDB Divisions for about 0.1 to 6.3 years (averaging 3.9 years — Note 13). Audit noted that since October 2013, subject EDB Divisions had been required to critically review their need for the earmarked VSP and provide concrete timeline and justifications for using the premises in the half-yearly exercises (see para. 2.2(b)). Audit considers that the EDB should continue to exercise stringent control on the earmarking of VSP for uses and regularly review the need to retain the earmarked VSP.

3.10 **12 VSP not yet put to allocated uses.** Six VSP allocated for mainstream school use, four for temporary school use, one for education centre use and one for office use had not yet been put to such uses as at 30 April 2015. The 12 VSP had been so allocated for about 0.3 to 7.8 years (averaging 2.2 years — Note 14). Audit conducted a case study (see Case 2) and found delays in taking necessary follow-up actions for putting the VSP concerned to the allocated use. In Audit's view, the EDB should closely monitor the follow-up actions after allocation of a VSP to avoid unnecessary delay in putting the VSP to use.

Note 13: *According to EDB records, 1.6 to 15.6 years (averaging 6 years) had elapsed since the cessation of operation of the nine schools concerned.*

Note 14: *According to EDB records, 1.6 to 11.6 years (averaging 6.4 years) had elapsed since the cessation of operation of the 12 schools concerned.*

Case 2

Delay in putting an allocated VSP to use

1. School J was closed in August 1995. The VSP was used as temporary accommodation from April 1999 to August 2003 and from March 2006 to February 2008 by three different educational organisations.

2. In July 2007, the VSP was allocated to the adjacent School K as its extension. School K was verbally informed of the allocation and that the VSP would be handed over after completion of renovation works.

3. Between 2008 and June 2012, the preliminary work performed included feasibility study, funding application, appointment of project consultant, project design and preparation of building plans. In June 2012, the EDB noticed that the renovation works could not be continued without issuing a written notification of the allocation of the VSP (the Offer Letter) to School K and the formal taking-over of the VSP by School K. In August 2012, the EDB formally issued the Offer Letter to School K, which confirmed its acceptance in October 2012.

4. The formal allocation of the VSP to School K also required the execution of a service agreement and a tenancy agreement between the Government and the operator of School K (Note). The service agreement and the tenancy agreement were executed in August and October 2014 respectively. As at June 2015, the on-site renovation works had not yet started. According to the service agreement, School K shall commence operation at the VSP in October 2016 or on a date to be mutually agreed between the Government and the IMC.

Audit comments

5. While the preliminary work started in 2008, the on-site renovation works had not started as at June 2015. The EDB should examine the causes of the delay and exercise closer monitoring for similar cases in future.

Source: Audit analysis of EDB records

Note: As a general requirement, a school operator receiving substantive infrastructural support from the Government shall enter into a service agreement with the Government, and a tenancy agreement for the school site/premises owned by the Government. The tenancy agreement is required to be executed as soon as practicable with a view to facilitating the submission of building plans of the renovation works to the appropriate authority.

Allocating vacant school premises for educational or other uses

3.11 *Need to maximise the use of VSP.* As land resources are valuable in Hong Kong, it is important to maximise the use of VSP in both the short term and the long term. Where there are sound justifications for earmarking any VSP for long-term educational uses, they should be put to short-term gainful use as far as practicable. The EDB has a mechanism in place to provide relevant information on suitable VSP available for short-term uses to other B/Ds for consideration. In Audit's view, the EDB should consider whether other possible interested parties (e.g. NGOs and community organisations) may also be provided with such information so that they may apply through the subject B/Ds.

VSP returned to the Government which were not being used

3.12 Under the central clearing house mechanism (see para. 2.4), for VSP not suitable for educational uses, the EDB should report them to the PlanD in the first instance before returning the VSP to relevant departments for alternative uses. The PlanD will review the VSP to determine whether the sites should be retained for the provision of Government, Institution and Community facilities or released for other uses such as housing development. Generally, the PlanD will consult all concerned B/Ds on land use review or specific land use changes.

3.13 As at 30 April 2015, 76 VSP considered by the EDB as not suitable for educational uses and returned to the Government were not being used. The 76 VSP comprised 73 under the LandsD's purview and 3 under the HD's purview.

3.14 *71 VSP under LandsD's purview which were not allocated for any use.* For VSP returned to it, the LandsD will arrange for their disposal according to the planned long-term uses (see para. 3.12) or for suitable temporary uses as appropriate (see para. 3.16). Audit noted that:

- (a) 73 VSP under the LandsD's purview were not being used as at 30 April 2015. According to EDB records, 0.6 to 35.6 years (averaging 12.1 years) had elapsed since the cessation of operation of the 73 schools concerned (see Note 12 to para. 3.8); and

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- (b) of the 73 VSP, 2 had uses identified and formalities to implement the uses were in progress. The other 71 VSP had not been allocated for any use. These 71 VSP were mostly located in the New Territories (see Table 7). Of these 71 VSP, 60 had site areas ranging from 72 to 16,138 m² (averaging 3,204 m² — Note 15).

Table 7

**71 VSP under LandsD's purview which were not allocated for any use
(30 April 2015)**

District	No. of VSP
Yuen Long	22
North	18
Tai Po	10
Islands	7
Tuen Mun	5
Sai Kung	3
Shatin	2
Tsuen Wan	2
Wong Tai Sin	1
Yau Tsim Mong	1
Total	71 (Note)

Source: Audit analysis of EDB and LandsD records

Note: Physical possession of 32 of the 71 VSP had not been delivered to the Government after cessation of school operation. The 32 VSP comprised 8 VSP on government land and 24 VSP on private land (see Table 11 in para. 4.3).

Note 15: *Information on the site areas of the other 11 VSP was not available from EDB records.*

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3.15 Upon enquiry, the LandsD informed Audit in September/October 2015 that among the 71 VSP:

- (a) 21 (30%) VSP were on the lists of vacant government sites available for application on short-term basis for greening and community uses pending implementation of the long-term planned uses (see para. 3.16). However, some were unattractive due to their remote locations with poor access, or due to the dilapidated building structures requiring substantial renovation works before the premises could be gainfully used;
- (b) 22 (31%) VSP (including 2 on government land and 2 on private land with physical possession not delivered to the Government) were being planned/considered/processed for other uses;
- (c) action was being taken or would be taken for recovering possession of 10 (14%) VSP (comprising 6 on government land and 4 on private land). Some concerned parties had raised objections (see para. 4.5); and
- (d) 18 (25%) VSP with physical possession not delivered to the Government were on private land where the private parties had no obligation to deliver possession of the VSP to the Government under the terms of the land documents (see para. 4.7).

3.16 ***Room for improving LandsD's arrangements for short-term uses of VSP.*** According to the LandsD:

- (a) where the long-term use of a VSP (with physical possession returned to the LandsD) is yet to be implemented or determined, the LandsD will try to put it to appropriate temporary uses such as renting it out on short-term tenancy on application or allocating it for use by other B/Ds (Note 16);

Note 16: *According to the LandsD, starting from July 2015, the list of vacant government sites (including VSP therein) available for temporary uses has been circulated bi-annually to all policy bureaux for their consideration in conjunction with departments (and other interested parties known to them) for possible use.*

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- (b) if the LandsD has not received any expression of interest from outside parties or other B/Ds for using the VSP, the LandsD will add the VSP to a list of vacant government sites available in the relevant district for application on short-term basis for greening and community uses by any interested parties; and
- (c) the list is available for public inspection at the District Lands Offices (DLOs) and would be circulated to the relevant District Councils and copied to the relevant District Offices and District Social Welfare Offices on a regular basis. Both District Offices and District Social Welfare Offices are encouraged to share the lists with the NGOs or community groups looking for sites for greening or community uses on a temporary basis.

Audit enquiries with each of the 12 DLOs and visits to 2 DLOs (Note 17) revealed that there was room for improvement in the arrangements (see Table 8). In Audit's view, the LandsD needs to ensure that interested parties have ready access to updated and complete information about VSP.

Table 8

Audit findings on information about VSP provided by DLOs

Enquiries of the 12 DLOs by phone	Replies from DLOs
<ul style="list-style-type: none">• Is there a list of vacant premises for short-term use that is available for inspection?	11 of the 12 DLOs replied "Yes". An officer of DLO/North who answered the phone enquiry said on 10 July 2015 that there was no list for public inspection, and an applicant should state clearly the location of the site in the application (Note 1).
<ul style="list-style-type: none">• What is the procedure for inspecting the list?	The procedure varied among the 11 DLOs. The different requirements included making appointment, submitting business certificate and filling in form with personal particulars.

Note 17: *Both the enquiries and the visits were made by Audit staff in their capacity as members of the public in July 2015.*

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Table 8 (Cont'd)

Audit visits to 2 DLOs	Audit findings
<ul style="list-style-type: none"> • Visited DLO/Islands on 10 July 2015 	<p>After the phone enquiry in the morning on 10 July 2015, Audit staff paid a visit in the afternoon. An officer said that there was no such list for public inspection, despite the fact that Audit staff emphasised that the officer answering the phone in the morning said that there was such a list (Note 2).</p>
<ul style="list-style-type: none"> • Visited DLO/Yuen Long on 15 July 2015 	<p>Audit staff obtained records of vacant government land available for temporary use.</p> <p>According to the EDB's master list that had been released to the LandsD, there were 22 VSP not being used in Yuen Long District (see Table 7 in para. 3.14). However, the DLO records provided to Audit staff showed only 6 of the 22 VSP (Note 3).</p>

Source: Audit enquiries and visits (made by Audit staff in July 2015 in their capacity as members of the public)

Note 1: Upon enquiry, the LandsD informed Audit in October 2015 that the phone enquiry was first received by the General Registry which referred it to a member of the Land Team for reply who was not aware of the list because it was the Estate Team which compiled the list for public inspection. To prevent recurrence of such incidents, DLO/North has informed the General Registry and Land Team members that in future, all such enquiries should be directed to the Estate Team that is responsible for reply.

Note 2: Upon enquiry, the LandsD informed Audit in October 2015 that the officer who met the Audit staff in the afternoon had only been deployed to the Tenancy Team since May 2015. He was not aware of the list in the office which was arranged for public inspection by the Land Control Team. The relevant officer has since been briefed.

Note 3: Upon enquiry, the LandsD informed Audit in October 2015 that some VSP in Table 7 were not included for different reasons: (i) the VSP involved private land; (ii) the VSP intermingled with private land; or (iii) applications had been received and under processing for use of the VSP.

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3.17 *1 VSP under HD's purview not allocated for any use.* Of the three VSP under the HD's purview and not being used as at 30 April 2015 (see para. 3.13), two were under the Social Welfare Department's review for conversion to provide rehabilitation services. The remaining VSP, with a vacancy period of 4.6 years, had not been allocated for any use. The HD needs to review the case, with a view to putting the VSP to gainful use as soon as possible.

3.18 *Inter-departmental efforts to put VSP to gainful use.* Land resources in Hong Kong are valuable. Leaving ex-school premises and sites vacant for a long period is a waste of land resources and does not meet public expectation. While the inter-departmental meeting in October 2011 (see para. 2.4) did introduce a central clearing house mechanism, the meeting made clear that the PlanD was not the management agent for unallocated VSP. Upon enquiry, the Development Bureau informed Audit in October 2015 that:

- (a) the Development Bureau/PlanD are responsible for identifying and allocating land resources with a view to meeting the land requirements justified and substantiated by relevant B/Ds;
- (b) in accordance with the established mechanism, only VSP that are confirmed by the EDB as no longer required for education purposes and could be released by the EDB would be referred to the PlanD. The PlanD would then be responsible for considering suitable alternative uses of the sites in question. The objective of this arrangement is to ensure that such VSP sites could be put to optimal use; and
- (c) the Committee on Planning and Land Development is currently the inter-departmental forum for discussing and deciding on issues relating to land use planning and related matters. Review of the use of VSP returned by the EDB is among the matters that would be submitted to the Committee for consideration and endorsement. If necessary, the matters relating to land supply may be escalated to the Steering Committee on Land Supply (see Note 8 to para. 2.4) for resolving inter-bureau/inter-departmental differences.

Audit recommendations

- 3.19 **Audit has *recommended* that the Secretary for Education should:**
- (a) **review the 29 VSP not being used as at 30 April 2015, especially those having been left idle for a long period of time, with a view to taking appropriate measures to improve the mechanism for handling VSP;**
 - (b) **for the eight VSP that had not been earmarked for any use, review whether they should be returned to the Government for consideration of alternative uses;**
 - (c) **continue to exercise stringent control on the earmarking of VSP for educational uses and regularly review the need to retain the earmarked VSP;**
 - (d) **closely monitor the follow-up actions after allocation of a VSP to avoid unnecessary delay in putting the VSP to use; and**
 - (e) **where there are sound justifications for earmarking VSP for long-term educational uses and the VSP concerned are available for application for short-term uses, continue to provide other B/Ds with relevant information of the VSP through the existing mechanism and consider whether other possible interested parties such as NGOs and community organisations may also be provided with such information so that they may apply through the subject B/Ds.**
- 3.20 **Audit has *recommended* that the Director of Lands should ensure that interested parties have ready access to updated and complete information about VSP available for application for use for community, institutional or non-profit-making purposes on a short-term basis.**
- 3.21 **Audit has *recommended* that the Director of Housing should put the VSP with a vacancy period of 4.6 years (see para. 3.17) to gainful use as soon as possible.**

Response from the Government

3.22 The Secretary for Education agrees with the audit recommendations in paragraph 3.19. He has said that:

- (a) the EDB would review the 29 VSP not being used and consider returning the VSP that are not suitable for educational uses to the Government as appropriate. The EDB would also expedite the return of VSP not earmarked for any educational use to the Government as far as practicable;
- (b) as the eight VSP not earmarked for any use are located on private land, the EDB would consult the LandsD if they should be returned to the Government in accordance with the land lease for consideration of alternative uses;
- (c) the EDB would continue to exercise stringent control in the earmarking of VSP for educational uses. The relevant EDB Divisions which have earmarked the VSP for such uses will regularly review the need to retain the earmarked VSP and the timeline of use as appropriate;
- (d) while there are uncontrollable or unforeseeable factors such as local concerns which are beyond the EDB's control and may affect the use of VSP even after allocation, the EDB would closely follow up to avoid unnecessary delay in putting a VSP to use as far as practicable; and
- (e) the EDB would continue to closely liaise with other B/Ds through the existing mechanism to facilitate other B/Ds' consideration of the VSP for short-term uses including organisations under their purview.

3.23 The Director of Lands agrees with the audit recommendation in paragraph 3.20. She has said that:

- (a) the LandsD would continue to include the VSP, available for application on short-term use for greening and community uses, in the list of vacant government sites circulated to relevant District Councils/District Offices/District Social Welfare Offices regularly, and make the list for public inspection in the relevant DLO; and

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- (b) appropriate guidelines for arrangement for public inspection of the list at DLO would be issued to all DLOs.

3.24 The Director of Housing agrees with the audit recommendation in paragraph 3.21. He has said that the HD will follow up with the PlanD, as the central clearing house, for consideration of alternative use of the VSP.

School premises being used

Long time taken before putting some VSP to current use

3.25 As mentioned in paragraph 3.5(b), as at 30 April 2015, 102 (44%) of the 234 VSP were being used. According to EDB records, on average 3.1 years had elapsed since the cessation of operation of the 102 schools concerned when they were put to the current use (see Note 12 to para. 3.8). In particular, for 21 of the 102 VSP, the periods that had elapsed when they were put to the current use ranged from 5 to 15 years. As stated in the examination of VSP not being used as at 30 April 2015, Audit considers that VSP should be put to gainful use in the shortest possible time. The audit recommendations on VSP not being used are detailed in paragraphs 3.19 to 3.21.

VSP under EDB's purview

3.26 Of the 102 VSP being used, 77 were under the EDB's purview and 17 were under the LandsD's purview (the other 8 VSP were under HD, GPA or Home Affairs Department). The 17 VSP under the LandsD's purview (Note 18) were put to various temporary or short-term uses (see para. 3.16). Table 9 shows the uses of the 77 VSP under the EDB's purview.

Note 18: *Physical possession of 7 of the 17 VSP had not been delivered to the Government after cessation of school operation. The 7 VSP comprised 1 VSP on government land and 6 VSP on private land (see Table 11 in para. 4.3).*

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Table 9

**Uses of 77 VSP under EDB's purview
(30 April 2015)**

Use	No. of VSP
<i>Mainstream school uses</i>	
Primary school (Note)	22
Secondary school	7
Special school	4
International school	7
<i>Other educational uses</i>	
Education and resource centre	5
Post-secondary education	13
Vocational training	3
<i>Other uses</i>	
Office of NGO or statutory body	2
Temporary uses (see Table 10 in para. 3.28)	14
Total	77

Source: Audit analysis of EDB records

Note: 12 VSP were used for converting half-day primary schools to whole-day primary schools.

Remarks: Physical possession of 23 of the 77 VSP had not been delivered to the Government after cessation of school operation. The 23 VSP were on private land (see Table 11 in para. 4.3).

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3.27 *Under-utilised VSP.* Audit found that four VSP were only partially utilised for the allocated uses. Their site areas and the types of use are as follows:

- (a) one VSP of 2,150 m² for secondary school;
- (b) one VSP of 6,224 m² for education and resource centre;
- (c) one VSP of 1,800 m² for special school; and
- (d) one VSP of 5,350 m² for office use.

On EDB records, these four VSP have been put to gainful uses. However, Audit noted that for the premises in (a) to (c) above, about half of the floors/blocks were not being used. For the premises in (d) above, the covered playground and staff quarters were not being used. In Audit's view, the EDB should consider exploring ways to maximise the utilisation of the four VSP.

3.28 *Some VSP allocated for temporary uses for a long period.* Table 9 (see para. 3.26) shows that 14 VSP were, according to EDB records, allocated for temporary uses. Audit noted that the EDB had not earmarked the 14 VSP for any specific long-term educational uses for the time being. Audit analysis revealed that some of the 14 VSP had been allocated for temporary uses for a long period, including four VSP that had been allocated for temporary uses for over six years (see Table 10). In Audit's view, the EDB should regularly review the need of such VSP for temporary uses.

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Table 10

**Temporary uses of 14 VSP under EDB's purview
(30 April 2015)**

Period of use (Year)	No. of VSP	Use
1 or below	3	1 for decanting of school undergoing in-situ redevelopment 1 for EDB storage 1 for education and resource centre
Over 2 to 3	5	1 for post-secondary school 1 for primary school 2 for decanting of schools undergoing in-situ redevelopment 1 for office use
Over 3 to 4	1	For decanting of an international school
Over 4 to 5	1	For decanting of an international school
Over 6 to 7	1	For primary school
Over 7 to 8	1	For international school
Over 10 to 15	2	1 for decanting of an international school 1 for education and development centre
Total	14	

Source: Audit analysis of EDB records

Audit recommendations

- 3.29 **Audit has *recommended* that the Secretary for Education should:**
- (a) **consider exploring ways to maximise the utilisation of the four VSP that were partially utilised for their current uses; and**
 - (b) **regularly review the need to retain those VSP that had been allocated only for temporary uses for a relatively long period of time.**

Response from the Government

3.30 The Secretary for Education agrees with the audit recommendations. He has said that:

- (a) the EDB would assess the utilisation of the VSP and include the VSP in the half-yearly exercises for circulation to EDB Divisions with a view to maximising the utilisation of the VSP as far as practicable. The EDB would also inform other B/Ds of the availability of VSP that were not fully utilised; and
- (b) some VSP play an important role in providing temporary decanting premises for schools during their redevelopment or renovation works. The EDB would regularly review the VSP for temporary uses as appropriate.

PART 4: HANDLING CASES OF VACANT SCHOOL PREMISES NOT SURRENDERED

4.1 This PART examines the handling of cases of VSP not surrendered by SSBs in accordance with the relevant provisions. The following issues are discussed:

- (a) surrendering of school sites and premises upon cessation of operation (paras. 4.2 to 4.13); and
- (b) school reprovisioning cases (paras. 4.14 to 4.20).

Surrendering of school sites and premises upon cessation of operation

4.2 When a school ceases to operate at a premises for reasons such as school closure, merging with another school and reprovisioning to another location, depending on the land status and conditions in the relevant land document governing individual VSP, the VSP (i.e. the school site together with the premises thereon) is usually required to be returned to the Government according to the relevant provisions. The main provisions are as follows:

- (a) *School premises on government land.* These include school premises built on land allocated by the LandsD to the EDB by permanent government land allocation (PGLA). The EDB allocates the school premises by entering into a tenancy agreement with the SSB/IMC. On cessation of school operation, the SSB/IMC is required under the tenancy agreement to return the school premises to the EDB. Apart from PGLA cases, some school sites are held on government land licences or short-term tenancies. The LandsD is responsible for taking back such school sites on cessation of school operation if the licence or tenancy does not permit other uses or the site is required for long-term use or priority use;

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- (b) *School premises on private land.* Some school premises are built on private land. For these cases, some involve land granted by the Government under PTG and some involve land acquired privately by the SSB. Where the LandsD has granted the land to the SSB by land lease containing a cessation/diminution of user clause (usually PTG granted at nil or nominal premium), the Government has the right to re-enter the site if it is no longer used for the permitted purposes or if there is a substantial diminution of user. On cessation of school operation, the land could be re-entered by the Government by exercise of the right under the clause, especially if voluntary surrender cannot be reached with the grantee.

Granting of land to the SSB by PTG or other forms of land grant was mainly a practice in the past. The current practice for public sector and Direct Subsidy Scheme schools is mainly to allocate the land to the EDB by PGLA.

4.3 Of the 234 VSP, 27 premises have been or would be demolished for housing or other developments (see para. 3.5(c)). The other 207 VSP comprised 137 premises on government land and 70 premises on private land. As at 30 April 2015, physical possession of 71 (34%) of these 207 VSP had not been delivered to the Government after cessation of school operation. Table 11 shows the details.

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Table 11

**Physical possession status of 207 VSP
(30 April 2015)**

Responsible B/D	Use of VSP	No. of VSP		
		Physical possession delivered to Government	Physical possession not delivered to Government	Total
<i>VSP on government land</i>				
EDB	Not being used	19	–	19
	Being used	47	–	47
LandsD	Not being used	41	8	49
	Being used	10	1	11
Others (Note 1)	Not being used	3	–	3
	Being used	8	–	8
Sub-total	Not being used	63 } 128	8 } 9	71 } 137
	Being used	65 }	1 }	66 }
<i>VSP on private land (Note 2)</i>				
EDB	Not being used	1	9	10
	Being used	7	23	30
LandsD	Not being used	–	24	24
	Being used	–	6	6
Sub-total	Not being used	1 } 8	33 } 62	34 } 70
	Being used	7 }	29 }	36 }
<i>Overall</i>	Not being used	64 } 136	41 } 71	105 } 207
	Being used	72 }	30 }	102 }

Source: Audit analysis of EDB and LandsD records

Note 1: Others comprised the HD (9), GPA (1) or Home Affairs Department (1). While the 9 VSP vested in/held by the Hong Kong Housing Authority (managed by the HD) did not actually belong to the Government, they were classified as VSP on government land for simplicity.

Note 2: VSP on private land included those wholly on private land and those partly on private land and partly on government land.

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Physical possession of 9 VSP on government land not delivered to the Government

4.4 Table 11 shows that, as at 30 April 2015, physical possession of nine VSP on government land had not been delivered to the Government after cessation of school operation. The nine VSP had been considered by the EDB as not suitable for educational uses and returned by the EDB to the LandsD. According to EDB records, 6.6 to 18.6 years (averaging 11.2 years) had elapsed since the cessation of operation of the nine schools concerned (see Table 12).

Table 12

9 VSP on government land with physical possession not delivered to the Government (30 April 2015)

School	District	Site area (m²)	Year of cessation of school operation	Time elapsed since cessation of school operation (Year)
L	Tai Po	4,000	1996	18.6
M	Tai Po	1,382	1996	18.6
N	Islands	800	2003	11.6
O	North	7,839	2005	9.6
P	Tuen Mun	1,854	2005	9.6
Q	North	16,138	2006	8.6
R	Tuen Mun	4,458	2006	8.6
S	North	878	2006	8.6
T	North	6,874	2008	6.6

Source: Audit analysis of EDB and LandsD records

Remarks: School N was being used by a rural committee as a youth and elderly centre. The other 8 VSP were not being used.

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4.5 LandsD records indicated that the nine SSBs concerned had previously been granted with government land licences to use the school sites. As mentioned in paragraph 4.2(a), the LandsD is responsible for taking back such school sites on cessation of school operation. In September 2015, Audit visited three DLOs (namely Islands, North and Tai Po DLOs) that handled seven of the nine VSP (i.e. Schools L to O, Q, S and T). Audit examination of case files kept by the three DLOs revealed that:

- (a) for School L, prior to 9 September 2015, the LandsD had not taken action to take back the school site. On 9 September 2015, the LandsD liaised with the concerned party by phone with a view to taking back the site. The concerned party raised objection because the VSP was an iconic and memorial building of the village; and
- (b) for the other six schools (i.e. Schools M to O, Q, S and T), the LandsD had requested the SSBs to demolish the structures and hand back the sites. However, one SSB had not responded to the LandsD's request and the other five SSBs had raised objections for reasons such as the school premises had been constructed at their costs.

The LandsD needs to review and follow up the cases.

Physical possession of 62 VSP on private land not delivered to the Government

4.6 Table 11 in paragraph 4.3 also shows that, as at 30 April 2015, physical possession of 62 VSP on private land had not been delivered to the Government after cessation of school operation. The 62 VSP comprised:

- (a) 32 VSP under the EDB's purview which had not been returned to the Government. Of the 32 VSP, 9 were not being used and 23 were being used; and
- (b) 30 VSP considered by the EDB as not suitable for educational uses which had been returned by the EDB to the LandsD. Of the 30 VSP, 24 were not being used and 6 were being used.

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The uses of the 23 VSP under the EDB's purview mentioned in (a) above were mainly arranged by the SSBs concerned but not through the EDB's established mechanism for handling VSP, which would involve inviting SSBs to submit applications for the use of VSP (see para. 2.2). As such, the 23 VSP might not have been put to optimal uses for the effective implementation of the EDB's education policies. Similarly, the uses of the 6 VSP under the LandsD's purview mentioned in (b) above were arranged by the SSBs concerned.

4.7 At Audit's request, the LandsD checked the land leases and informed Audit in September/October 2015 that for only 32 of the 62 VSP on private land with physical possession not delivered to the Government, the land lease contains a cessation/diminution of user clause specifying that the Government has the right to re-enter the site (see para. 4.2(b)). However, of the remaining 30 VSP, Audit sample check of 10 VSP revealed that 2 VSP also have land leases containing a cessation/diminution of user clause. The LandsD needs to recheck the cases. For VSP whose land leases do not contain a cessation/diminution of user clause, there is a need to consider on a case-by-case basis any appropriate actions that may be taken. For example:

- (a) while the land lease of School H does not contain a cessation/diminution of user clause, the SSB concerned is required by the service agreement signed with the EDB to surrender the VSP (see para. 4.18); and
- (b) for another VSP without a cessation/diminution of user clause, the land documents provide that the lot shall not be used for any purpose other than those specified in the land documents (e.g. for a church or a non-profit-making school).

Right to re-enter not exercised

4.8 The EDB had all along relied on voluntary surrender of VSP on private land by SSBs. The EDB had no right to require possession of VSP on private land under the land lease. The LandsD on the advice and directive of relevant policy bureau can exercise the right to re-enter where such provision has been provided under the land lease. It is also a policy that no application of grantee of private lots for modifying the user under lease either by way of lease modification or a short-term waiver may be processed without the policy support of the EDB or with objection from any other relevant departments. As the EDB maintained close

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working relationships with SSBs and treated them as the EDB's partners in the implementation of various education policies and measures, the EDB seldom approached the LandsD for advice on the follow-up actions such as re-entry to be enforced by the LandsD. Audit considers that there is a need to review the handling of cases of VSP on private land where the Government has a contractual right to require possession of the school and improve the mechanism for recovering possession of the VSP.

4.9 The EDB has been keeping records on cases of VSP not surrendered by SSBs but did not produce summarised information for the LandsD's action on a regular basis. In Audit's view, the EDB should review the recording and monitoring mechanism and share information with the LandsD to facilitate their follow-up action under the lease regime. To enhance transparency and accountability, there is a need to consider releasing information on such cases.

4.10 Audit also noted that some of these VSP were put to temporary uses only and the EDB was still negotiating with the SSBs for possession of the premises for deployment for educational uses. An example is shown in Case 3. Audit considers that the EDB should continue its efforts in liaising with the SSBs and seeking advice from the LandsD on the appropriate actions that can be taken by the LandsD under the lease regime.

Case 3

Unsurrendered VSP of School U put to temporary uses only

1. School U was situated on a site of about 2,000 m² granted to the SSB under a PTG for a non-profit making primary school with 24 classrooms in 1967 for 75 years. With the cessation of user clause in the land lease, the LandsD has the right to re-enter if the site is no longer used for the permitted purpose.

2. School U was closed in September 2006 under the Consolidation Policy. After school closure, the SSB refused to surrender the school premises. In 2007, the SSB submitted proposals to the EDB on running a Direct Subsidy Scheme primary school on the site. The EDB did not support the proposal as it intended to use the school premises for conversion of a nearby bi-sessional primary school into a whole-day primary school, and there were surplus primary school places in the district at that time.

3. In December 2008, the SSB arranged the school premises for temporary school decanting use in order to fulfil the land lease requirement of school use. As at July 2015, the school premises was being used as the decanting site of an international school. The use was arranged after obtaining a waiver on the non-alienation clause of the land lease from the LandsD with the EDB's policy support. The term is up to July 2016 and thereafter quarterly.

4. There were on-going discussions between the EDB and the SSB on voluntary surrender of the school premises. However, in view of the reluctance of the SSB and the need for a decanting premises for the international school (see para. 3 above), which would facilitate its redevelopment project and meet the demand for international school places, the EDB has not discussed with the LandsD about the appropriate actions that can be taken by the LandsD under the lease regime in this case.

Audit comments

5. In view of the SSB's reluctance to surrender voluntarily, the EDB should consult the LandsD about the appropriate actions, including exercising the right to re-enter under the land lease at an appropriate time. The EDB should also in parallel assess whether the VSP is considered suitable for educational uses and, if so, consider applying to the LandsD for a PGLA after the VSP has been returned from the ex-lot owner, either by voluntary surrender or re-entry action.

Source: Audit analysis of EDB records

Audit recommendations

4.11 **Audit has recommended that the Secretary for Education and the Director of Lands should:**

- (a) **expedite action to take appropriate actions on the 71 VSP the physical possession of which has not been delivered to the Government after cessation of school operation;**
- (b) **review the handling of cases of VSP located on private land that are required to be but not yet surrendered to the Government under the land lease and improve the mechanism for recovering possession of the VSP; and**
- (c) **review the recording and monitoring mechanism of VSP the physical possession of which has not been delivered to the Government, and consider releasing information on such cases.**

Response from the Government

4.12 The Secretary for Education agrees with the audit recommendations. He has said that the EDB would:

- (a) follow up relevant cases with the LandsD in accordance with the “Protocol on Responsibility-sharing in Private Treaty Grants” promulgated by the LandsD in July 2014. The EDB would also take a more proactive role to enhance communication with the LandsD on VSP not surrendered by the SSBs; and
- (b) enhance communication with the LandsD including sharing information known to the EDB to facilitate the LandsD’s follow-up action on those VSP the physical possession of which has not been delivered to the Government. The EDB would also, in consultation with the LandsD, consider releasing the information to enhance transparency and accountability.

Handling cases of vacant school premises not surrendered

4.13 The Director of Lands agrees with the audit recommendations. She has said that the LandsD is ready to work with the EDB on its policy advice and directive.

School reprovisioning cases

4.14 For VSP on private land arising from reprovisioning of a school to a new premises, the EDB has devised an additional measure to require the SSB to surrender the VSP. In the service agreement signed between the EDB and the SSB for the operation of the school in the new premises, the EDB includes a surrender clause specifying that the SSB should voluntarily surrender the existing school site and premises to the Government upon relocation to the new premises, and that the EDB can terminate the service agreement if the SSB does not do so.

4.15 *Audit case studies.* Of the 207 VSP shown in Table 11 (see para. 4.3), 7 involved VSP on private land arising from school reprovisioning. As at 30 April 2015, the SSBs in 5 of the 7 cases had not surrendered the VSP. Audit conducted case studies on 2 of the 5 cases of not surrendering VSP after school reprovisioning and another case study on a school premises which had been demolished after school reprovisioning to determine whether there are lessons to be learned. The audit findings are in paragraphs 4.16 to 4.18.

Omission of surrender clause from the service agreement

4.16 In one school reprovisioning case, the standard surrender clause was omitted from the service agreement. After the school was relocated to the new premises, the SSB applied for lease modification and changed the site of the old premises to church use (see Case 4).

Case 4

Unsurrendered school premises of School V changed to church use

1. In September 2006, School V was reprovisioned to a new site and premises. School V's existing site (the VSP) occupied a private lot of about 2,200 m².

2. In 2007, the SSB applied to the LandsD for lease modification to change the use of the site from primary school use to church use. The LandsD sought the EDB's advice on whether the site was still necessary for educational purposes. In processing this request, the EDB found out that, for unknown reasons, the service agreement for school reprovisioning, signed in August 2006, had not included the standard surrender clause as a condition of allocating the new school premises. In the event, the EDB responded to the LandsD that, after careful consideration, the VSP was of little potential for future school/educational use and had no problem releasing the site.

3. In 2010, the lease modification was completed with the SSB paying a premium to the Government. The VSP is now used as a church.

Audit comments

4. It is the EDB's policy to require the SSB to surrender the existing school site upon school reprovisioning and the surrender clause is a standard clause to be included in the service agreement. Upon enquiry, the EDB informed Audit in August 2015 that it failed to locate any records showing why the surrender clause had not been included. In Audit's view, the EDB should strengthen the control and exercise caution in preparing service agreements to prevent leaving out the surrender clause in future.

Source: Audit analysis of EDB records

Handling cases of vacant school premises not surrendered

Surrender clause in service agreement nullified by a side agreement

4.17 In another school reprovisioning case, while the standard surrender clause was included in the service agreement, the EDB and the SSB had reached a side agreement which was inconsistent with the surrender clause (see Case 5).

Case 5

VSP of School W retained by SSB under a side agreement

1. In 1999, the SSB of School W (a secondary school) was allocated a new premises for reprovisioning the school. The old school premises was located on a PTG site granted to the SSB for a term of 75 years commencing from 1960 for operating a non-profit-making secondary school. There is a cessation and diminution of user clause under the lease which gives a right of re-entry to the Government if the site or building has ceased to be used for the purposes of a school, or the extent of the user for such purposes has so diminished that the retention of the demised premises or any part thereof for such purposes is no longer justified.

2. In July 2000, the EDB and the SSB signed a service agreement with the standard clause for surrendering the old school premises. However, before the signing of the agreement, in June 2000, an EDB officer had agreed in writing with the SSB that the surrender clause in the service agreement would not be applicable to the old school premises, and the SSB was not required to surrender the premises to the EDB, with the condition that the SSB would allow the EDB to use the premises for a period of 10 years for educational purposes.

3. This side agreement was inconsistent with the surrender clause in the service agreement and rendered it difficult for the Government to require surrender of the VSP under the service agreement. In the side agreement, it was stated that the SSB had explained to the EDB the limitation of the premises and the wish of the SSB to use the premises to provide other appropriate forms of educational services. According to the EDB, the officer making the side agreement had retired and there were no other records detailing the rationale or intention for making the side agreement with the SSB before the signing of the service agreement.

Case 5 (Cont'd)

4. In 2005, after consulting the LandsD and the Department of Justice, the EDB noted that the side agreement had made it difficult for the Government to require surrender of the VSP. The LandsD also advised in light of circumstances of the case including the grant of a waiver for the lot to be used as a primary school at that point in time, which the EDB had not objected, that this was not the type of case that re-entry of the site should be considered, i.e. during the term of the waiver granted. It was apparently not opportune to invoke the cessation of user clause when a primary school was operating under a valid waiver granted for the amended use. Instead, the EDB could hold the SSB strictly to the service agreement and invoke the surrender clause without regard to the side agreement. In the event, the EDB considered that it was more practical to steer the SSB towards the operation of a school at the VSP which the EDB supported instead of enforcing the surrender clause of the service agreement despite the side agreement.

5. School W ceased operation at the old premises in September 2004. The VSP had been used for school decanting up to August 2012. Since then, the VSP has been used for operating a private primary school, as arranged by the SSB.

Audit comments

6. Upon enquiry, the EDB informed Audit in August 2015 that there were practical difficulties in rectifying the situation. Audit considers that the EDB should strengthen the control and exercise caution in handling future cases and put in place suitable measures to prevent side agreement overriding the surrender clause without proper justification and documentation.

Source: Audit analysis of EDB records

Carving out of VSP not thoroughly considered

4.18 There was one school reprovisioning case in which only part of the VSP was proposed to be carved out from the PTG site for returning to the Government. However, there were road access and utility connection problems making it difficult for the Government to make use of the carved-out site (see Case 6).

Case 6

Only part of the VSP of School H required to be surrendered

1. An SSB set up School X (a primary school) and School H (a secondary school) on a PTG site (about 6,070 m²). In 1988, School X was relocated to a new premises. School H then used the vacated premises of School X for extension.
2. In 2006, the EDB allocated a new premises (about 5,950 m²) to the SSB to re-provision School H. In March 2012, the SSB signed a service agreement with the EDB, including a surrender clause requiring the SSB to surrender the secondary school portion to the Government.
3. In September 2012, School H started operation in the new premises. In considering the arrangement to carve out the secondary school portion from the PTG site (the surrendered part) for returning to the Government, the SSB informed the EDB that it would not allow access to the surrendered part (School H site) through the remaining part (School X site) that it would retain. It would also disconnect all utilities from the surrendered part. As such, after consulting the Transport Department, the Highways Department, the Drainage Services Department and the Electrical and Mechanical Services Department, the EDB found that there would be road access and utility connection problems for the surrendered part as it was blocked from the main road. The other side of the surrendered part was connected to a narrow service road not intended for road traffic and utility connection. This rendered it impractical for the Government to make use of the surrendered part.
4. In March 2014, the SSB wrote to the EDB and proposed to retain the surrendered part for providing social or educational services.

Audit comments

5. As mentioned in paragraph 3 above, School H site was blocked from the main road and there would be road access and utility connection problems if only School H site was carved out for returning to the Government. Audit considers that the EDB needs to consult the LandsD on how to take forward the carving out and surrender of School H so as to make the surrendered site accessible and usable.

Source: Audit analysis of EDB records

Audit recommendations

- 4.19 **Audit has *recommended* that the Secretary for Education should:**
- (a) **for Case 4 in paragraph 4.16 in which a surrender clause was omitted from the service agreement, strengthen the control and exercise caution in preparing service agreements to prevent recurrence of similar incidents in future;**
 - (b) **for Case 5 in paragraph 4.17 in which a side agreement was entered into with the SSB to the effect of nullifying the surrender clause in the service agreement, strengthen the control and exercise caution in handling future cases involving deviation from the standard surrender arrangement for reprovisioning cases and put in place suitable measures to prevent recurrence of similar incidents;**
 - (c) **for Case 6 in paragraph 4.18, consult the LandsD on how to take forward the carving out and surrender of School H so as to make the surrendered site accessible and usable; and**
 - (d) **review other cases of VSP arising from school reprovisioning but not surrendered to the Government and take appropriate follow-up actions.**

Response from the Government

4.20 The Secretary for Education agrees with the audit recommendations. He has said that:

- (a) regarding Cases 4 and 5, the EDB would exercise caution in handling future preparation of service agreements to prevent recurrence of similar incidents. It is now a well-established step of the service agreement preparation procedures to include the site surrender clause in a service agreement where applicable;

Handling cases of vacant school premises not surrendered

- (b) regarding Case 6, the EDB has been consulting the LandsD on how to take forward the carving out and surrender of School H. The EDB would explore the possibility of requiring the SSB to surrender the old premises of School X as well. The EDB would also exercise caution to prevent recurrence of similar incidents in future; and

- (c) the EDB would review the other cases and take appropriate improvement measures and follow-up actions, including seeking legal advice about the enforcement of the surrender clause (if any) where necessary.

PART 5: PROPERTY MANAGEMENT OF VACANT SCHOOL PREMISES

5.1 This PART examines the EDB's property management work for VSP that have not been put to use, focusing on the following areas:

- (a) procuring property management services (paras. 5.2 to 5.13); and
- (b) monitoring contractor performance (paras. 5.14 to 5.20).

Procuring property management services

5.2 In general, when VSP are considered not suitable/required for educational uses and their physical possession is delivered to relevant departments, the management responsibility of the VSP rests with the relevant departments. For VSP located on private land of SSBs, the management responsibility of the VSP rests with the relevant SSBs.

5.3 The EDB is responsible for the management of VSP in its possession (Note 19). Since 2005, the EDB has adopted a centralised approach for the management of VSP, with the IRSD taking on the management responsibility (see para. 1.13(b)).

5.4 Since 2008, the EDB has outsourced the property management services of VSP to local property management companies. The services include security patrol and inspections, pest control, removal of litter, cleansing and weeding. The services are provided on a daily, weekly or bi-weekly basis, depending on the EDB's assessment of the need, value and condition of VSP, and the cost involved. Staff of the IRSD are responsible for preparing service requirements, managing the outsourcing process, and monitoring contractor performance.

Note 19: *In accordance with the conditions of PGLA, the LandsD has requested the EDB to continue managing the VSP located on sites under PGLA to the EDB until the next user has been identified and the PGLA is terminated. As at 30 April 2015, five such VSP were managed by the EDB.*

Property management of vacant school premises

5.5 In 2014-15, the EDB awarded two property management service contracts (both for one year) for 16 VSP, with a total contract value of \$1.2 million. Other than the property management services, the EDB has also outsourced one-off services for managing VSP, such as removing graffiti, weeding of overgrown vegetation and removal of tree branches, when necessary. In 2014-15, the cost for such one-off services was about \$100,000.

Contracts awarded to a supplier not on the EDB supplier lists

5.6 When procuring services, the EDB is required to comply with the requirements of the Government's Stores and Procurement Regulations. EDB Divisions also have to adhere to the procedural requirements laid down in the EDB's internal circular.

5.7 The EDB's Supplies Section maintains lists of suppliers of common type of services. According to the EDB's internal circular on quotation procedures for procurement of services, EDB Divisions should refer to the supplier lists to select service providers by rotation for inviting quotations for procurement of common types of services. For procurement of non-common types of services, EDB Divisions may maintain their own list of service providers and forward them to the EDB's Supplies Section for posting onto EDB intranet for reference and sharing with others. If there is a last successful supplier, the last successful supplier should always be invited subject to satisfactory performance.

5.8 Audit scrutinised records of the quotation exercises conducted by the IRSD for procuring property management services during the period from 2010-11 to 2014-15. Audit noted that at least five service providers were invited by the IRSD in each exercise, in compliance with the requirement of the Stores and Procurement Regulations and the EDB's internal circular. However, some of the invited service providers were not on the EDB's supplier lists.

Property management of vacant school premises

5.9 Audit further examined in detail the two quotation exercises conducted for procuring property management services in 2014-15. Audit noted that:

- (a) six service providers were invited to submit quotations in each exercise, comprising four on the EDB's supplier lists and two not on the lists. The two not on the lists were the contractors of the existing or previous contracts;
- (b) both exercises received only one quotation from the same service provider, which was not on the EDB's supplier lists, namely the contractor of the existing contract; and
- (c) the IRSD awarded both contracts to the only bidder, after evaluating that the bids met the service requirements and the price proposals were at a reasonable level.

5.10 Upon enquiry, the EDB informed Audit in August 2015 that:

- (a) property management services were not common type services in the EDB and the EDB's supplier lists did not contain service providers of property management services; and
- (b) among the service providers invited by the IRSD to submit quotations, most were security guard service providers and cleaning service providers from the EDB's supplier lists. The invited bidders not on the EDB's supplier lists were the service providers either of the existing contract or previous contracts which provided satisfactory property management services.

5.11 Audit is concerned that the two quotation exercises conducted by the IRSD for procuring property management services in 2014-15 each received only one quotation from the same service provider. In Audit's view, the EDB should maintain a comprehensive list of service providers of property management services so as to widen the pool of potential providers which may be invited to submit quotations in future exercises for procuring property management services for VSP.

Audit recommendation

5.12 **Audit has *recommended* that the Secretary for Education should maintain a comprehensive list of service providers of property management services for procuring property management services for VSP.**

Response from the Government

5.13 The Secretary for Education agrees with the audit recommendation. He has said that the EDB would consider conducting wider research about the availability of other service providers for property management services so as to compile a more comprehensive list of service providers for property management. The list would also be posted onto EDB intranet for sharing within the EDB in accordance with the relevant EDB internal circular.

Monitoring contractor performance

5.14 From time to time, there were incidents of VSP having been broken-in or damaged (graffiti, broken windows and damaged fences) and with poor hygienic conditions. Photographs 1 to 4 show examples of such incidents. In 2014-15, there were 15 cases involving break-ins, vandalism or public complaints at VSP managed by the EDB.

Photographs 1 to 4

Examples of reported incidents at VSP

Photograph 1



Broken windows

Photograph 2



Graffiti on the wall

Photograph 3



Scorched wall

Photograph 4



Weeds on the playground

Source: EDB records

Inadequacies in monitoring contractor performance

5.15 Though the property management services of the VSP have been outsourced to the contractor, the responsibility for effective service provision still rests with the EDB. Audit noted that complaints including vandalism, poor hygienic conditions and unauthorised entries into the VSP had been raised by the locals and District Council Members on some VSP covered by outsourced contracts.

Property management of vacant school premises

5.16 Upon enquiry, the EDB informed Audit in June 2015 that the EDB conducted inspections on an ad-hoc basis to the VSP managed by contractors. However, the inspection officer did not keep comprehensive records of all inspections as evidence of inspections conducted and for management review. Audit considers that the EDB should review the inspection mechanism and take improvement measures.

5.17 According to the Stores and Procurement Regulations, B/Ds should devise an effective monitoring mechanism to ensure that a contractor performs to standard and complies with the terms of a contract. B/Ds should evaluate the performance of their contractors upon completion of the contract for contracts lasting a year or less. The requirements are applicable to the property management service contracts on VSP. However, the EDB did not compile reports on the performance of the contractors. Audit considers that the EDB should evaluate the performance of its contractors upon completion of the contract.

Contractors not required to submit reports

5.18 According to the contract specifications, contractors shall produce a monthly written report, in such form as the EDB may prescribe within the timeframe as specified, showing in detail the services performed at VSP. Such requirement could confirm whether services of the contractors such as routine security inspections, pest control, cleansing and weeding, and manpower requirements are delivered in accordance with the contracts. Regarding the two property management service contracts awarded in 2014-15, Audit noted that monthly reports were not submitted for one contract and the monthly reports for the other contract did not show in detail the services performed. Audit considers that the EDB needs to enhance its monitoring role on the contractors' performance by requiring preparation of comprehensive reports on work done.

Audit recommendations

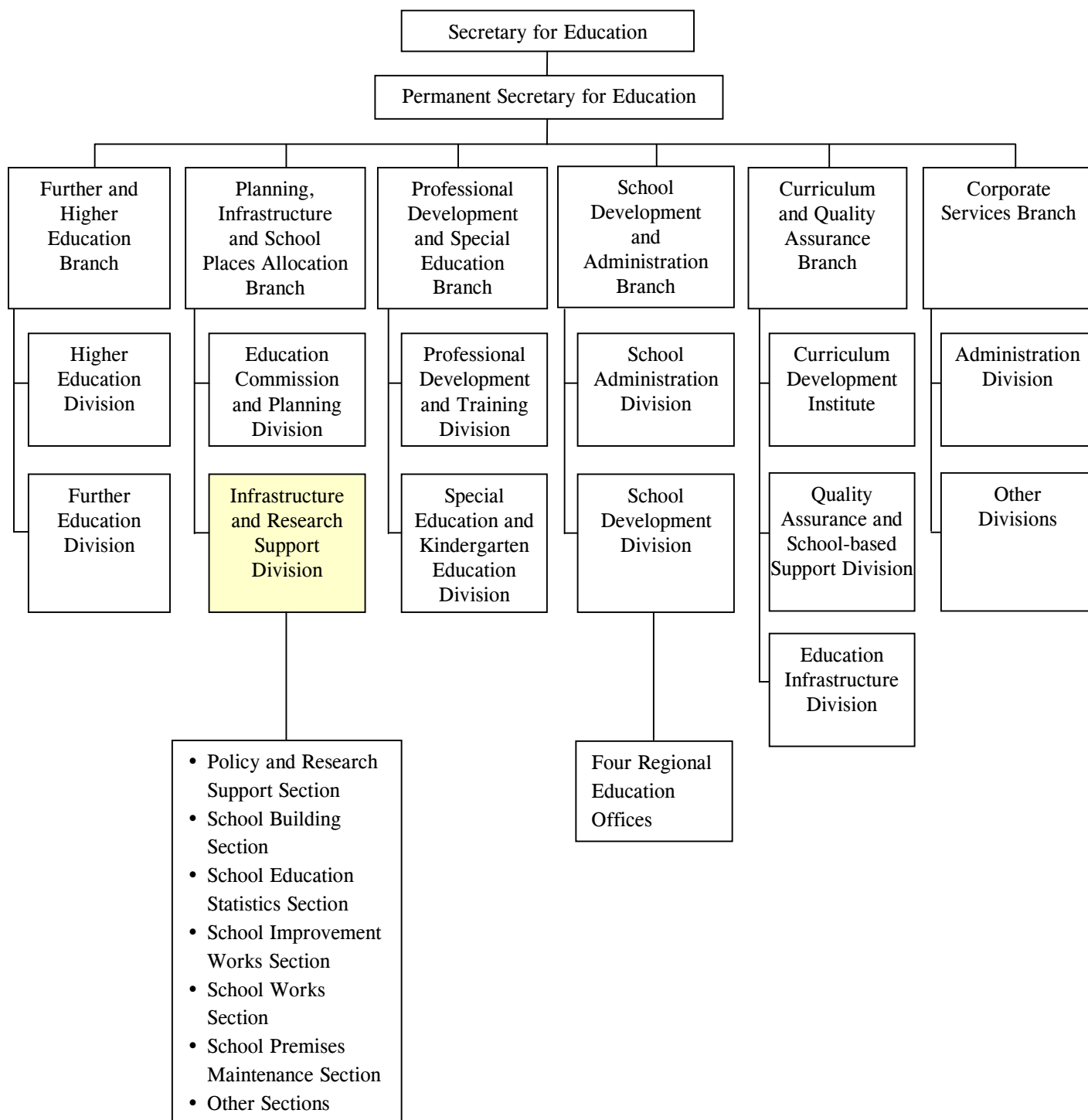
- 5.19 **Audit has *recommended* that the Secretary for Education should:**
- (a) **review the inspection mechanism, requiring EDB staff to properly document the results of inspections to VSP managed by contractors;**
 - (b) **evaluate the contractor's performance upon completion of a property management service contract on VSP; and**
 - (c) **require the property management service contractors to prepare comprehensive monthly reports on their work done in accordance with the contracts.**

Response from the Government

5.20 The Secretary for Education agrees with the audit recommendations. He has said that:

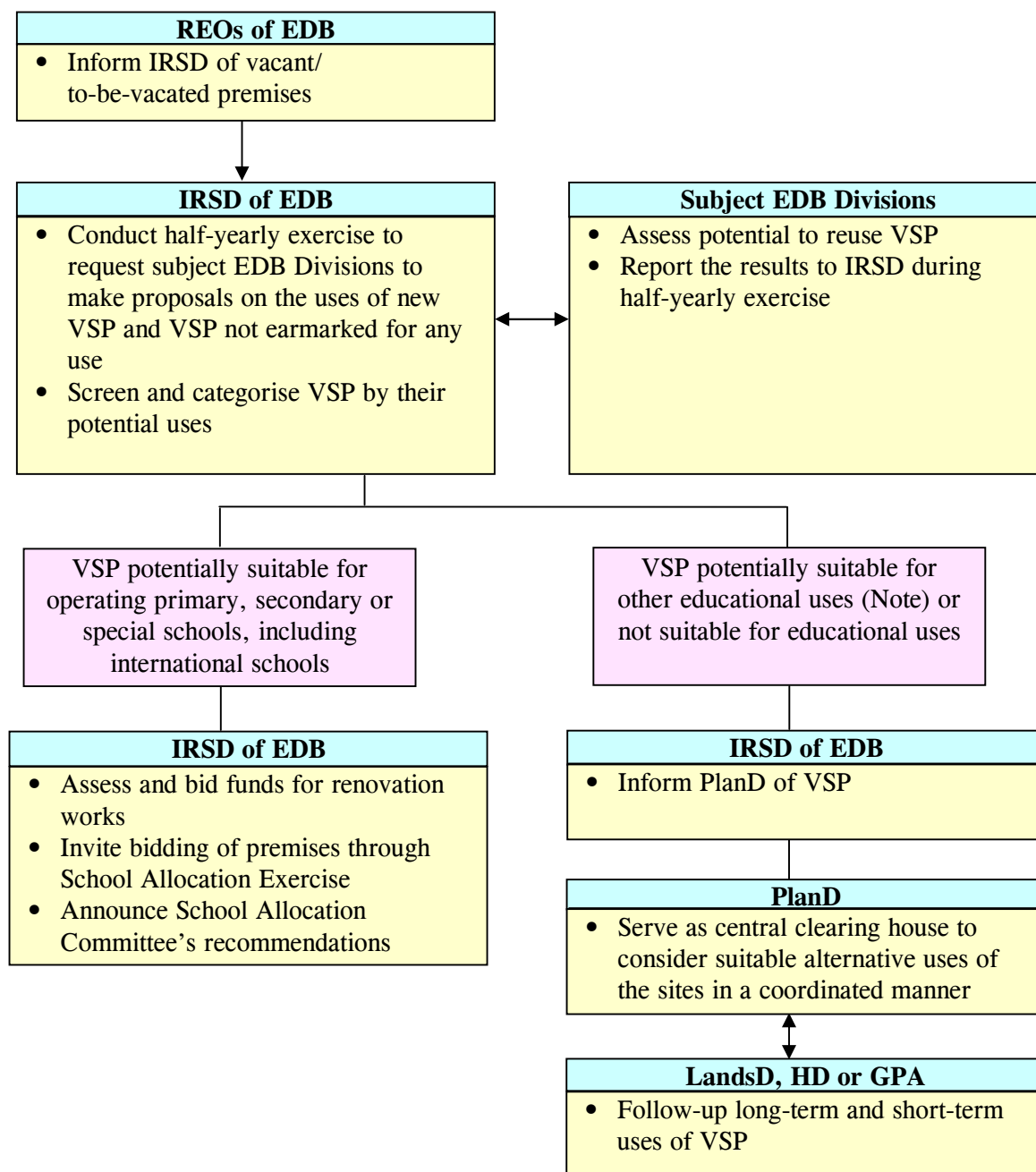
- (a) the EDB would review the inspection mechanism and require relevant staff to properly document the results of inspections to VSP managed by contractors;
- (b) starting from the current property management service contracts, the EDB would properly conduct an evaluation on the performance of the contractor upon completion of the contracts; and
- (c) the EDB would improve the reporting system by requiring the contractors to prepare more comprehensive monthly reports on their work done.

**Education Bureau
Organisation chart (extract)
(30 June 2015)**



Source: EDB records

Education Bureau’s mechanism for handling vacant school premises



Source: Audit analysis of EDB records

Note: If the EDB needs any VSP for educational uses other than mainstream schools, the EDB, like any other B/Ds, has to submit its application for the proposed use with sound justifications for the PlanD’s consideration.

Two inter-departmental meetings

	Meeting on 25 November 2005	Meeting on 10 October 2011
Purpose	To determine how best the Government as a whole should handle VSP since the implementation of Consolidation Policy	To note the position regarding the handling and disposal of VSP and the review of reserved school sites under the established mechanisms adopted by EDB
Participating B/Ds	Financial Services and the Treasury Bureau, GPA, the then Housing, Planning and Lands Bureau, LandsD, PlanD	Development Bureau, Transport and Housing Bureau, EDB, Environment Bureau, Financial Services and the Treasury Bureau, HD, Environmental Protection Department, LandsD, PlanD, Transport Department, Civil Engineering and Development Department
Agreed actions for VSP not suitable for educational uses	<ul style="list-style-type: none"> • Pass the list to PlanD which would circulate the list to identify any proposal on long-term uses of the sites • Also pass the list to GPA to advise on the potential uses of vacant premises on the sites • EDB would handle enquiries/requests for using the VSP for education and manpower-related purposes • For requests outside EDB's purview, interested parties should approach the policy B/D direct 	<ul style="list-style-type: none"> • PlanD serves as a central clearing house to consider suitable alternative uses for sites in an efficient and co-ordinated manner • EDB is only to retain VSP for mainstream educational uses and report to PlanD on the availability of VSP ready to be returned to the relevant B/Ds • These VSP should be put up for bidding by all B/Ds
Management responsibility for VSP not suitable for educational uses	The management responsibility of such VSP was discussed but no conclusion was reached. It was agreed that the matter should be considered further when the proposed use was clear	For clarity, the PlanD would not be the management agent before reallocation

Source: Audit analysis of EDB records

Acronyms and abbreviations

Audit	Audit Commission
B/Ds	Bureaux and departments
DLOs	District Lands Offices
EDB	Education Bureau
GPA	Government Property Agency
HD	Housing Department
IMC	Incorporated management committee
IRSD	Infrastructure and Research Support Division
LandsD	Lands Department
LegCo	Legislative Council
m ²	Square metres
NGOs	Non-governmental organisations
PGLA	Permanent government land allocation
PlanD	Planning Department
PTG	Private treaty grant
REOs	Regional Education Offices
SSBs	School sponsoring bodies
VSP	Vacant school premises

CHAPTER 4

**Food and Health Bureau
Food and Environmental Hygiene Department**

Burial and cremation services

**Audit Commission
Hong Kong
27 October 2015**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 65 of the Director of Audit contains 10 Chapters which are available on our website at <http://www.aud.gov.hk>

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BURIAL AND CREMATION SERVICES

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BURIAL AND CREMATION SERVICES

Executive Summary

1. The Food and Environmental Hygiene Department (FEHD) provides burial and cremation services to the public. It manages 10 public cemeteries, six public crematoria and eight public columbaria (with 11 gardens of remembrance), and regulates the operation of 27 private cemeteries. In the past 20 years, the average numbers of annual deaths and cremations were 38,000 and 31,000 respectively. They are estimated to rise to 55,000 and 52,000 respectively in the next 20 years. Since the 1970s, the Government has been encouraging cremations instead of coffin burials, resulting in a rising demand for columbarium facilities and an upsurge of private columbaria. In recent years, there have been public concerns over the shortage in supply of public niches, and the regulation of private columbaria. The Government has adopted a three-pronged strategy in its columbarium policy, comprising promotion of green burials, a robust supply of public columbaria, and enhanced regulation of private columbaria. The Cemeteries and Crematoria Section of the FEHD is responsible for providing burial and cremation services. As at March 2015, the Section had an establishment of 213 staff. Its financial provision for 2015-16 is \$332 million. The FEHD charged the public for the burial and cremation services rendered. Its estimated service income for 2015-16 is \$103 million. The Audit Commission (Audit) has recently conducted a review of the burial and cremation services provided by the FEHD.

Supply of public niches

2. *Slow progress in implementing the District-based Columbarium Development Scheme.* In 2010, the FEHD introduced the Scheme under which all the 18 districts collectively share the responsibility of developing columbarium facilities. The Government identified 24 sites in 18 districts for columbarium development. However, the overall progress of implementing the Scheme was not entirely satisfactory. Up to July 2015, only two small projects had been completed. There were still 16 (67%) projects without a definite timetable for consulting the relevant District Councils. Audit noted that the slow progress was attributed to additional time spent on conducting traffic impact assessment studies and the lack of effective measures for promoting local acceptance (paras. 2.6, 2.8 and 2.10 to 2.16).

Executive Summary

3. *Acute shortage in short-term supply of niches.* As a result of project delays, there would be practically no supply of public niches under the Scheme from 2016 to 2018. Moreover, private niches would also be in short supply as a result of the implementation of a proposed licensing scheme for private columbaria (see para. 10 below). As a result, both public and private niches would be in short supply in the next few years. Public demand for niches could not be met until completion of the Tsang Tsui Project in 2019, providing 160,000 niches. There is a need to devise a plan and explore measures to address the impending acute shortage (paras. 2.24 and 2.25).

4. *Need to critically review allocation arrangements.* In September 2011, the FEHD adopted the arrangements to allocate some 45,000 new niches in three phases from 2012 to 2015 by computer balloting. In 2014, the Ombudsman received a public complaint against the FEHD's allocation arrangements. After investigation, the Ombudsman found the complaint substantiated and concluded that phased allocation had left many niches vacant for too long, and people unsuccessful in balloting might have to wait endlessly. The FEHD agreed to review the allocation arrangements. Audit noted that the FEHD had not disclosed the rationale and justifications for adopting phased allocation arrangements for public deliberation. Audit also noted that, before conducting the review of the allocation arrangements, the FEHD intended to allocate the 160,000 niches to be completed under the Tsang Tsui Project in 2019 by phases of 20,000 niches a year over eight years (paras. 2.29 to 2.38).

Burial grounds and cremation services

5. *Mismatch cases of urn graves.* In 2004, the Ombudsman conducted a direct investigation and found that the records of urn graves managed by the FEHD were incomplete and inaccurate, and recommended a full-scale survey to verify the information. From 2005 to 2014, the FEHD conducted on-site surveys of all its urn graves and found some 37,000 cases in which the name of the deceased inscribed on the grave headstone did not match with that in FEHD records. The FEHD considered that the information mismatch did not necessarily mean that the identity of the body buried in the urn grave was mistaken. Most of the mismatch cases were attributed to failure in the past to update official records, inaccurate data input, or suspected illegal burials. The FEHD flagged all mismatch cases in the computer records for taking follow-up actions when applications for exhumation were received. As of March 2015, the FEHD received applications for exhumation

Executive Summary

related to 1,473 mismatch cases and completed follow-up actions on 1,455 of them. The overall progress of following up mismatch cases was slow. Audit noted that the FEHD had not previously disclosed the results of the urn grave survey and the progress of following up mismatch cases (paras. 3.12 to 3.18).

6. ***Promoting the use of eco-coffins.*** Eco-coffins (made of recycled paper and cardboard) are more environmentally friendly, cost less, and take less fuel and less time for cremation than traditional coffins (made of wood). In 2006, the FEHD started to promote the use of eco-coffins and use them for cremating unclaimed bodies. Despite the benefits of using eco-coffins, the popularity of eco-coffins had not increased. In 2014, eco-coffins were used in 829 (2%) of 41,244 cremations of dead bodies. There is a need for more effective measures in overcoming barriers and promoting the use of eco-coffins (paras. 3.24 to 3.27).

7. ***Potential supply of urn spaces in allocated niches.*** A public niche is designed to hold two urns (standard niche) or four urns (large niche). Ashes from a close relative of the first deceased can be added to an allocated niche. In 2014, the FEHD relaxed the definition of close relative and removed the cap on the number of urns placed in a niche. Despite these measures, up to June 2015, the utilisation of urn spaces in public niches was low. About 77% of the some 201,000 occupied niches had unused urn spaces, with a total of some 176,000 spaces for placing additional sets of ashes. There is a need to promote and increase the use of the unused urn spaces, particularly as a means to meet the acute shortage of supply in niches from 2016 to 2018 (paras. 3.30 to 3.35).

Regulation of private columbaria

8. Private columbaria play an important role in supplying niches and providing choices to the public. Many private columbaria do not comply with statutory and government requirements arising from town planning, land leases and building safety. In June 2014, the Government introduced the Private Columbaria Bill to the Legislative Council for setting up a licensing scheme with the objectives of ensuring compliance with statutory and government requirements by private columbaria, enhancing protection of consumer interests and ensuring a sustainable mode of operation (paras. 4.2 and 4.5).

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9. *Inadequate enforcement actions against unauthorised columbaria.*

There were public comments that enforcement actions against unauthorised columbaria were not adequate. The number of unauthorised columbaria increased substantially from 52 (December 2010) to 124 (June 2015) by 72 (138%) in a period of less than five years. There is a need for the FEHD to devise an enforcement system under the new licensing scheme, with a mechanism for coordinating the efforts of other enforcement departments to ensure efficiency and effectiveness of the enforcement system (paras. 4.8, 4.11 and 4.12).

10. *Shortage in short-term supply of private niches.*

When the proposed licensing scheme comes into operation (expected to be in mid-2016), all private columbaria cannot sell or let out niches unless they have obtained licences. However, application for a licence can only be made three months later to allow time for setting up the Licensing Board. Moreover, time is required for processing applications, and the number of licences to be issued and the number of niches allowed for each licence could not be ascertained at this stage. The supply from licensed columbaria would be uncertain in the coming years (paras. 4.13 to 4.15).

Way forward

11. *More efforts needed for promoting green burials.*

Green burials, which include scattering of ashes at gardens of remembrance or at sea, provide a more sustainable way for the disposal of cremated ashes. Since 2007, the FEHD has been taking measures to encourage the community's acceptance of green burials, including the provision of free services. Despite such efforts, scattering of ashes at gardens of remembrance and at sea only accounted for a small percentage of cremations, at 7% and 2% respectively in 2014 (paras. 5.6 and 5.10).

12. *New measures to improve sustainability of public niche supply.*

To improve the sustainability in public niche supply, the Food and Health Bureau has proposed two measures, namely, setting a time limit for occupation of niches, and evening out the traffic impact of columbarium developments by confining worship periods to either the Ching Ming or Chung Yeung Festivals. However, there has been little progress in implementing these measures (paras. 5.17 to 5.19).

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Audit recommendations

13. Audit recommendations are made in the respective sections of the Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Secretary for Food and Health and the Director of Food and Environmental Hygiene should:

Supply of public niches

- (a) step up efforts to implement the District-based Columbarium Development Scheme, including taking measures to expedite the completion of traffic impact assessment studies, and devise more effective measures for promoting local acceptance of columbarium development projects (para. 2.21(a) and (b));
- (b) closely monitor the Tsang Tsui Project to ensure its timely completion in 2019 to meet the accumulated demand for public niches from 2016 to 2018 (para. 2.27(a));
- (c) devise a plan and explore measures to address the acute shortage in short-term supply of niches from public columbarium projects and private columbaria from 2016 to 2018 (para. 2.27(b));
- (d) critically review the arrangements for allocating new niches (para. 2.39(a));

Burial grounds and cremation services

- (e) consider reporting to the Legislative Council the results of the full-scale survey of urn graves and the progress of following up mismatch cases (para. 3.19(c));
- (f) identify and take more effective measures in promoting the use of eco-coffins (para. 3.28(b));

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- (g) take effective measures to increase the public's use of the unused urn spaces in allocated niches to meet public demand for niches (para. 3.43(a));

Regulation of private columbaria

- (h) devise an enforcement system under the proposed licensing scheme in a timely manner, with a mechanism for coordinating the efforts of other enforcement departments to ensure efficiency and effectiveness in taking enforcement actions against unlicensed columbaria (para. 4.16(a));

Way forward

- (i) step up efforts to continue to promote green burials (para. 5.15); and
- (j) examine the feasibility of the two measures, i.e. setting a time limit for occupation of niches and evening out the traffic impact of columbarium developments, for ensuring the sustainability in the supply of public niches (para. 5.21(a)).

Response from the Government

14. The Secretary for Food and Health and the Director of Food and Environmental Hygiene generally agree with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Public burial and cremation services

1.2 The Food and Environmental Hygiene Department (FEHD) provides burial and cremation services to the public and manages the following facilities:

- (a) 10 public cemeteries (see Appendix A). Burial spaces are currently available for allocation to the public at Wo Hop Shek Cemetery and three cemeteries on outlying islands (Cheung Chau Cemetery, Lai Chi Yuen Cemetery, and Tai O Cemetery);
- (b) six public crematoria (see Appendix B) for the cremation of human bodies and skeletal remains;
- (c) eight public columbaria (see Appendix C) providing niches for the interment of cremated ashes; and
- (d) 11 gardens of remembrance at public columbaria for scattering of ashes.

1.3 ***Coffin burials.*** The 10 public cemeteries provided a total of 23,728 coffin burial spaces, with 8,178 spaces vacant as at June 2015. In 2014, 1,056 coffin burials took place at these cemeteries. Coffin burials at these cemeteries are generally not permanent. Six years after a coffin burial, skeletal remains have to be exhumed for either reburial at an urn grave or cremation.

1.4 ***Urn burials.*** The 10 public cemeteries provided a total of 217,411 urn burial spaces, with 38,052 spaces vacant as at June 2015. In 2014, 878 urn burials took place at these cemeteries. Urn burials are generally not subject to any time limit.

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1.5 *Cremations of human bodies and skeletal remains.* The six public crematoria had a total of 26 body cremators, providing an aggregate annual cremation capacity of 43,884 sessions as at June 2015. The Wo Hop Shek Crematorium also had one skeletal cremator. In 2014, 41,244 cremations of human bodies and 3,312 cremations of skeletal remains took place at these crematoria.

1.6 *Interment of cremated ashes.* The eight public columbaria provided a total of 214,332 niches, with 9,115 vacant niches as at June 2015 (Note 1). Photograph 1 shows the Wo Hop Shek Kiu Tau Road Columbarium completed in July 2012.

Photograph 1

Wo Hop Shek Kiu Tau Road Columbarium



Source: FEHD records

Note 1: *Of the vacant niches, about 7,700 were new niches of the Wo Hop Shek Kiu Tau Road Columbarium undergoing allocation (see para. 2.29(d)), about 1,100 were new niches of the columbaria on outlying islands for allocation to deceased local residents, and about 140 were used niches for allocation through a waiting list arrangement.*

1.7 **Green burials.** Apart from placing them in columbaria, cremated ashes may be scattered at the 11 gardens of remembrance or at three designated Hong Kong waters. In 2014, there were 2,697 cases of scattering ashes at gardens of remembrance and 856 cases of scattering ashes at sea. Photograph 2 shows the garden of remembrance at the Diamond Hill Columbarium commissioned in 2012.

Photograph 2

Garden of remembrance at the Diamond Hill Columbarium



Source: FEHD records

1.8 **Regulation of related trades.** The FEHD operates two licensing schemes to regulate undertakers of burials and funeral parlours respectively. As at June 2015, there were 113 licensed undertakers of burials and seven licensed funeral parlours.

1.9 The FEHD has provided information of its burial and cremation services on its website. It has also published a booklet entitled “A Guide to After-Death Arrangements”, providing comprehensive information to guide the public in making appropriate after-death arrangements.

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1.10 In providing burial and cremation services, the FEHD is governed by the Public Health and Municipal Services Ordinance (PHMSO — Cap. 132), particularly the part on disposal of the deceased, and a number of subsidiary regulations under the PHMSO (e.g. the Undertakers of Burials Regulation (Cap. 132CB), and the Funeral Parlours Regulation (Cap. 132AD)).

1.11 The Cemeteries and Crematoria Section of the FEHD is responsible for providing burial and cremation services. As at March 2015, the Section had an establishment of 213 staff. Its financial provision for 2015-16 is \$332 million (comprising \$64 million of personal emoluments, \$260 million of departmental expenses, and \$8 million of capital expenditure).

1.12 Appendix D shows the main charges for the FEHD's burial and cremation services. Its estimated service income for 2015-16 is \$103 million.

Public concerns over shortage of public niches and regulation of private columbaria

1.13 Since the 1970s, the Government has been encouraging cremations instead of coffin burials. The number of cremations has increased substantially from about 7,300 (35% of deaths) in 1975 to 41,244 (90% of deaths) in 2014. This policy, coupled with the increasing number of deaths, has resulted in a rising demand for columbarium facilities. On the other hand, a number of public columbarium projects were shelved during the years 2005 to 2007 due to objections of local communities. There has been public concern over the shortage in supply of public niches in meeting public demand.

1.14 Private columbaria play an important role in supplying niches and providing choices to the public. There has been an upsurge of private columbaria in recent years, partly due to the shortage in supply of public niches. As at June 2015, there were 156 private columbaria according to records of the Development Bureau. However, many private columbaria do not comply with requirements arising from town planning, land leases and building safety. There has been public concern over the regulation of private columbaria.

1.15 *Consultation on the review of columbarium policy.* In July 2010, the Food and Health Bureau (FHB) launched a public consultation on the review of columbarium policy. In April 2011, the FHB reported the outcome of the consultation to the Legislative Council (LegCo) Panel on Food Safety and Environmental Hygiene, stating that the public broadly endorsed the following directions:

- (a) increasing the supply of columbarium facilities;
- (b) encouraging public acceptance of more environmentally friendly and sustainable means of handling cremated ashes;
- (c) enhancing consumer protection in the choice of private columbarium facilities; and
- (d) enhancing the regulation of private columbaria.

1.16 *Consultation on a licensing scheme for private columbaria.* In December 2011, the FHB launched another public consultation on a licensing scheme for private columbaria. In June 2014, the Government introduced to LegCo the Private Columbaria Bill intended for setting up a licensing scheme. According to the work plan of December 2014, the proposed licensing scheme was planned to commence in mid-2016 (see para. 4.5).

1.17 *Government's columbarium policy.* In July 2014, the FHB informed the LegCo Panel on Food Safety and Environmental Hygiene (LegCo Panel) that the Government's columbarium policy was to adopt a three-pronged strategy comprising:

- (a) promotion of green burials;
- (b) a robust supply of public columbaria; and
- (c) enhanced regulation of private columbaria.

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The FHB indicated that it was likely that the prevailing practice of storing ashes in columbarium facilities would continue for some time, and it would take time to fortify the mindset changes necessary for turning green burials into the mainstream mode of handling human ashes.

Private burial services

1.18 Apart from the FEHD, some religious and other organisations operate 27 private cemeteries on a non-profit-making basis. The FEHD regulates the operation of these private cemeteries in accordance with the Private Cemeteries Regulation (Cap. 132BF) under the PHMSO. As at June 2015, these organisations provided 138,901 coffin burial spaces, 8,271 urn burial spaces and 359,047 niches within the private cemeteries.

1.19 One of these organisations is the Board of Management of the Chinese Permanent Cemeteries (BMCPC) established under the Chinese Permanent Cemeteries Ordinance (Cap. 1112) to provide and manage cemeteries for persons of Chinese race permanently resident in Hong Kong. The BMCPC manages four cemeteries (i.e. Aberdeen Cemetery, Tsuen Wan Cemetery, Cape Collinson Cemetery, and Junk Bay Cemetery). The BMCPC is chaired by the Secretary for Home Affairs, and includes the Director of Food and Environmental Hygiene and the Director of Lands as ex-officio members. It has been working closely with the Government in the provision of burial services and facilities.

Audit review

1.20 In May 2015, the Audit Commission (Audit) commenced a review of the burial and cremation services provided by the FEHD. The review has focused on the following areas:

- (a) supply of public niches (PART 2);
- (b) burial grounds and cremation services (PART 3);

- (c) regulation of private columbaria, undertakers of burials and funeral parlours (PART 4); and
- (d) way forward (PART 5).

1.21 Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

General response from the Government

1.22 The Secretary for Food and Health and the Director of Food and Environmental Hygiene generally agree with the audit recommendations. They have provided Audit with the following general comments:

- (a) post-death arrangements should be seen with reference to the macro picture at the strategic level, having regard to the relative priorities of various policy portfolios competing for scarce and valuable land and financial resources;
- (b) storage of ashes in a columbarium niche is not an absolutely necessary part of post-death arrangements. It is at most a choice or preference that may differ from person to person, as evident by other ash disposal forms being accepted. More importantly, unless the community accepts time-limited niche arrangements under which niches can be recycled, the demand for niches is cumulative and cannot be met incessantly;
- (c) given the scarce land resources in Hong Kong, sole or predominant reliance on the deposition of cremated ashes in public niches is not a sustainable means of disposal of cremated ashes. The Government has since 2007 adopted a forward-looking approach by advocating and promoting green burials, which are considered as more efficient use of land resources, viable and sustainable in the longer term;

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- (d) the actual experience in promoting the paradigm shift from the adoption of coffin burials to cremation in the past well indicates that it is feasible to achieve a fundamental change in mindset in making post-death arrangements. Another paradigm shift in the disposal of cremated ashes towards the sustainable green burials is needed; and
- (e) action is already in hand to promote co-location of ashes in public niches, scattering of ashes at gardens of remembrance and at sea, and the Internet Memorial Service. The Government intends to step up its promotion and publicity efforts in the coming years.

Acknowledgement

1.23 Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the FHB and the FEHD during the course of the audit review.

PART 2: SUPPLY OF PUBLIC NICHES

2.1 Currently, the prevailing practice after cremation is to store ashes in columbarium facilities. The three-pronged strategy underpinning the Government's columbarium policy includes a robust supply of public columbaria (see para. 1.17(b)). This PART examines the following issues relating to supply of public niches:

- (a) District-based Columbarium Development Scheme (paras. 2.8 to 2.22);
- (b) short-term supply of niches (paras. 2.23 to 2.28); and
- (c) allocation of new niches (paras. 2.29 to 2.40).

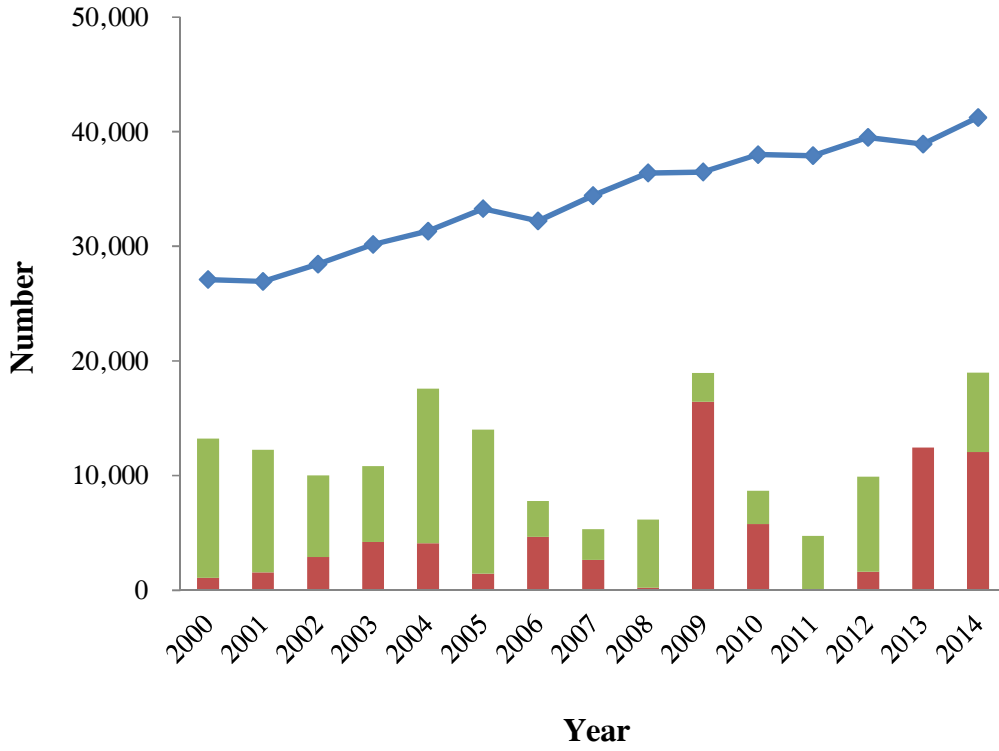
Increasing demand for columbarium niches

2.2 With a growing and ageing population in Hong Kong, the number of deaths and the corresponding number of cremations have been rising gradually year on year. In the past 20 years (1995 to 2014), the annual average numbers of deaths and cremations were about 38,000 and 31,000 respectively. In the next 20 years (2015 to 2034), the respective numbers are estimated to be about 55,000 and 52,000. As interring cremated ashes in columbarium niches is the mainstream mode of disposal, the demand for niches has been increasing over the years.

2.3 According to FEHD records, the number of new niches provided by the Government over the 15-year period from 2000 to 2014 represented about 14% of the number of cremations in the same period. The figure would increase to 34% if niches provided by the BMCPC are taken into account, with the annual figures ranging from 13% to 56%. Figure 1 shows the trend.

Figure 1

Numbers of cremations and new niches provided by the Government and the BMCPC (2000 to 2014)



Legend: ◆ Number of cremations
■ Number of new niches provided by the BMCPC
■ Number of new niches provided by the Government

Source: FEHD records

2.4 Besides the Government, the private sector also provides niches. The BMCPC and a number of religious and other bodies provide niches in the private cemeteries they operate. Table 1 shows the total number of niches provided in public columbaria (by the Government) and in private cemeteries as at June 2015.

Table 1
Niches provided in public columbaria and private cemeteries
(June 2015)

	Sold/Allocated (No.)	Available for sale/allocation (No.)	Total	
			(No.)	(%)
Public columbaria	205,217	9,115	214,332	37
Private cemeteries:				
— BMCPC	231,014	747	231,761	41
— Religious and other bodies	98,689	28,597	127,286	22
Total	534,920	38,459	573,379	100

Source: FEHD records

2.5 Other private columbaria, located in various types of premises (e.g. monasteries, temples and residential buildings), also provide niches. According to the broad estimates in a consultancy study commissioned by the FHB, as at December 2013, there were 104 private columbaria providing about 757,000 niches with about 432,000 (57%) niches sold. Of the 432,000 sold niches, about 329,000 (76%) niches were occupied. In preparation for the introduction of the proposed licensing scheme for private columbaria, the FEHD had requested private columbarium operators to submit information on the number of niches provided (see para. 4.7). As at August 2015, the FEHD was compiling the information received.

Supply of public niches

Increasing supply of public niches

2.6 In July 2010, the FHB published a consultation document on review of columbarium policy. The consultation document stated that:

- (a) the number of deaths and the number of cremations had been rising gradually every year, resulting in an increasing public demand for columbarium facilities;
- (b) in the past years 2005 to 2007, the Government failed to develop a number of columbarium projects involving over 240,000 niches due to enormous resistance from District Councils (DCs) and local residents;
- (c) in the last ten years (2000 to 2009), niches provided by the Government only accounted for about 14% of cremations, or 40% if the BMCPC was taken into account; and
- (d) a District-based Columbarium Development Scheme would be implemented to provide niches to meet public demand. Under the Scheme, all the 18 districts should collectively share the responsibility of developing columbarium facilities.

2.7 According to the views collected from the consultation, the public recognised that inadequate supply of public columbaria was a serious problem which in turn led to other problems in the columbarium landscape. There was a broad consensus that supply of public columbaria should be increased since they were essential facilities for the community. The concept of district-based columbarium development was supported. After the consultation, the Government adopted the policy objective of increasing the supply of public niches under its three-pronged strategy of the columbarium policy (see para. 1.17(b)).

District-based Columbarium Development Scheme

2.8 Under the District-based Columbarium Development Scheme, the Government identified 24 potential sites in 18 districts for columbarium development (see Appendix E). The Government stressed that whether the sites could eventually be used for developing columbarium facilities would depend on the results of traffic impact assessment (TIA) studies (Note 2), engineering feasibility studies (Note 3) and technical feasibility studies (Note 4). Upon completion of the initial studies, the Government would consult the DCs concerned before developing the sites for columbarium use. In January 2014, the FHB informed the LegCo Panel that, together with the supply of the BMCPC and subject to the outcome of initial studies as well as support from DCs and LegCo, it was estimated that the supply of new niches would cumulatively increase to hundreds of thousands by 2031.

2.9 The FEHD, through its Steering Committee on Crematorium and Columbarium Projects (chaired by the Director of Food and Environmental Hygiene), oversees the planning and construction of new columbaria, and monitors the demand and supply of public niches. The Architectural Services Department is the main works agent for the columbarium development projects.

Slow progress in implementing the Scheme

2.10 Since July 2010, the FHB and the FEHD have regularly reported progress of implementing the Scheme to the LegCo Panel. In November 2013, the LegCo Panel was informed that support from DCs had been obtained on 6 projects

Note 2: *A TIA study assesses the traffic and transport implications arising from the columbarium development with a view to confirming the development potential of the site.*

Note 3: *10 out of the 24 sites were required to conduct engineering feasibility studies (which include TIA studies) to confirm their development potential due to their topographical and other conditions.*

Note 4: *A technical feasibility study seeks to establish the technical feasibility of a project on a prima facie basis, having regard to all relevant aspects including design constraints, environmental considerations, project cost estimate and implementation programme.*

Supply of public niches

(including 2 completed projects) and consultations with DCs on 10 projects were tentatively planned in 2014, making a total of 16 projects with the DCs consulted.

2.11 In May 2015, in response to Members' concern on the timetable for implementing the 24 projects under the Scheme, the FHB informed the LegCo Panel that:

- (a) 2 projects (Cheung Chau (Extension) Project and Diamond Hill (Extension) Project) providing 2,540 niches had been completed;
- (b) for 5 projects, the Government had obtained support from the relevant DCs. These projects would provide 449,000 niches, accounting for more than half of the total number of niches of all the 24 projects;
- (c) for 8 projects, the Government would consult the relevant DCs within the next few years; and
- (d) for the remaining 9 projects, the Government would draw up a time line for taking forward these projects in due course.

2.12 In June 2015, support from the Wan Chai DC on the Wong Nai Chung project was obtained. On the whole, 8 projects had completed the DC consultation process, including those listed under paragraph 2.11(a) and (b). However, this did not meet the tentative target of consulting the DCs for 16 projects by 2014 (see para. 2.10). On the whole, there were still 16 (67%) projects without a definite timetable for consulting the DCs. Regarding project completion, by July 2015, only two small projects (2,540 niches) had been completed. The next major project would not be completed until 2019 (see para. 2.24). The overall progress of the implementation of the Scheme was not entirely satisfactory. There is a need to step up efforts to implement the Scheme. In response to the audit observations, the FHB and FEHD said that the extent of progress made in implementing the District-based Columbarium Development Scheme should not be judged solely in terms of the number of projects that had gone through DC consultation. The number of niches that could be generated from the 8 projects with support from DCs (450,000 niches in total) constituted over 50% of the total number of niches expected to be generated from all the 24 sites.

Need to expedite the completion of TIA studies

2.13 In planning a columbarium project, a TIA study is usually required to be conducted before consulting the DC. The TIA study assesses the traffic and transport implications arising from the columbarium development with a view to confirming the development potential of the site, and recommends appropriate traffic and transport improvement/management measures to mitigate adverse impacts, if any, identified.

2.14 In December 2012, the FHB informed the LegCo Panel that of the 24 projects under the Scheme, TIA studies were:

- (a) not required for 6 projects;
- (b) subsumed in the engineering feasibility studies for 10 projects; and
- (c) required for 8 projects.

Audit has scrutinised the 8 projects in (c) and found that, in two projects, the TIA process was prolonged by the need to conduct an additional TIA study after completing the first. The two projects are the Tsang Tsui Project and the Cape Collinson Project (see Case 1). In Audit's view, there is a need to take measures to expedite the completion of TIA studies.

Case 1

Columbarium development at Cape Collinson Road, Chai Wan

1. The Cape Collinson Project was originally planned to complete in 2017. In January 2011, the Architectural Services Department, as the works agent of the FEHD, appointed a consultant to conduct a TIA study to choose between Site A (3,800 square metres for 15,000 niches) and Site B (1,730 square metres for 8,000 niches), both at Cape Collinson Road, Chai Wan, to develop a multi-storey columbarium building.

2. According to the contract, the consultant was required to submit a final report within five months, i.e. by June 2011, which should incorporate and address all comments received from relevant government departments. The consultant completed the draft report in May 2011 and submitted it to the relevant government departments for comments. Owing to the complexity of the traffic conditions in the vicinity of the sites during festive periods, several rounds of discussions among various departments, including the Transport Department and the Hong Kong Police Force, were conducted to reach agreement on the traffic and transport improvement measures. Eventually, the TIA study was completed in July 2012, one year behind schedule. Site A (with 15,000 niches) was recommended for columbarium development with a number of traffic and transport improvement measures, including the provision of a new pedestrian access route (mainly used by grave-sweepers) with escalators and stairways.

3. The provision of escalators would bring about substantial capital cost to the project and increase the niche unit cost. In December 2012, the Architectural Services Department considered that it would be worthwhile to further explore the possibility to provide more niches to lower the unit cost. In January 2013, the FHB/FEHD agreed to increase the number of niches from 15,000 to 25,000 to enhance cost-effectiveness and site utilisation.

Case 1 (Cont'd)

4. In August 2013, the Architectural Services Department appointed a consultant to conduct another TIA study on the revised project scope with 25,000 niches. The study commenced in August 2013 for completion in eight weeks, i.e. by October 2013, so that the FEHD could consult the Eastern DC in November 2013. However, the consultant took substantial time and efforts to reach agreement with relevant government departments on the traffic and transport improvement measures. The TIA study could only be completed in February 2014. After preparatory work (including debriefing sessions with the local community and site visits), the FEHD consulted the Eastern DC in September 2014, 10 months behind schedule.

5. The Eastern DC raised no objection to the project. As at June 2015, the FEHD was planning to seek the Town Planning Board's approval on the rezoning of the site. The project was planned to complete at the third quarter of 2020, about three years behind the original completion date of 2017.

Source: Audit analysis of FEHD records

Need to devise more effective measures for promoting local acceptance of columbarium projects

2.15 The public at large generally do not favour the presence of columbarium facilities in their neighbourhood. Consultations on columbarium development projects were usually met with objections from many local residents and the DCs. From 2005 to 2007, six columbarium projects involving over 240,000 niches had been shelved as a result. In the 2010 consultation document, it was mentioned that the Government would consider flexible arrangements to promote local acceptance, such as reserving a certain portion of niches for priority allocation to local residents. According to feedback received from the public consultation, divergent views were expressed in various districts on the proposal to reserve a certain portion of niches for priority allocation to local residents.

Supply of public niches

2.16 Up to July 2015, support from the relevant DCs was obtained for only 8 of the 24 projects, which involved remote sites or developments in/near cemeteries. In the past, columbarium developments near residential areas were usually met with local objections.

2.17 Audit noted that, for columbarium developments on outlying islands, the niches provided were reserved exclusively for local residents. The Cheung Chau (Extension) Project completed in 2013 was one example which was well supported by the Islands DC and local residents. Apart from this project, none of the projects under the Scheme have incorporated an element of priority allocation to local residents.

2.18 In a discussion with Audit in October 2015, the FEHD said that it held principled objection to priority allocation to local residents on the following grounds:

- (a) priority allocation would undermine fairness as the number of niches and the timing of availability of the 24 projects vary from case to case. As such, some districts might not benefit much (as compared with others) under priority allocation;
- (b) there might be a mismatch between districts where future columbaria would be located and districts with the relatively aged population; and
- (c) priority allocation was difficult to operate in practice (e.g. some districts experience changing population profile over time) and might create unnecessary social tensions and arguments over the fairness of the allocation mechanism.

As the FEHD has decided not to adopt priority allocation as a means to promote local acceptance of columbarium development projects, there is a need to devise more effective measures for promoting local acceptance.

Need to enhance cost-effectiveness of projects

2.19 The unit cost of providing a niche under a columbarium project is a key parameter to measure the cost-effectiveness of the project. From 2006 to 2013, there were nine columbarium projects completed (including outdoor open niche construction, alteration and addition to existing facilities, and development of new columbarium buildings), providing 1,000 to 43,710 niches each and with niche unit costs ranging from about \$330 to \$14,400, averaging \$10,246. Appendix F shows the details. The differences in the niche unit cost among projects were due to a number of factors, e.g. the number of niches provided, site conditions, design and development constraints, and requirements for transport infrastructural works and associated facilities. In January 2012, the Steering Committee (see para. 2.9) agreed that cost-effectiveness should be considered in assessing the suitability of the sites for columbarium development. When the developments could only provide a small number of niches and there were insurmountable constraints in developing the sites, consideration might be given to searching better alternative sites in the district.

2.20 In September 2014, the Steering Committee was informed of the estimated cost information of nine projects under the Scheme. It was decided to accord priorities for development to four of them (Note 5) with lower niche unit cost (\$9,000 to \$14,000) and earlier commissioning year. Audit noted that the niche unit cost of four of the five remaining projects (Note 6) was high (\$30,000 to \$85,000). In Audit's view, there is a need to explore alternatives to lower the niche unit cost of these projects.

Audit recommendations

2.21 **Audit has recommended that the Director of Food and Environmental Hygiene should:**

- (a) **step up efforts to implement the District-based Columbarium Development Scheme, including taking measures in consultation with the relevant government departments to expedite the completion of TIA studies;**

Note 5: *The four projects were at San Tin (\$9,000 each), Shuen Wan (\$12,000 each), Sham Shui Kok West (\$13,000 each), and Sham Shui Kok East (\$14,000 each).*

Note 6: *The four projects were at Tsueng Kwan O (\$30,000 each), Mount Davis (\$32,000 each), Pok Fu Lam (\$32,000 each) and Ching Cheung (\$85,000 each).*

Supply of public niches

- (b) **devise more effective measures for promoting local acceptance of columbarium development projects; and**
- (c) **for projects under planning with high niche unit cost, explore with the relevant government departments alternatives to lower the niche unit cost.**

Response from the Government

2.22 The Secretary for Food and Health and the Director of Food and Environmental Hygiene generally agree with the audit recommendations. They have said that:

- (a) the Government considers it not realistic to expect the supply of new niches to catch up with the ever rising demand due to the growing population and competing demands for the limited supply of land resources in Hong Kong;
- (b) demand for niches represents a personal choice or preference rather than a basic need. It is unrealistic to consider niche as a must-have provision or to expect the supply of new niches can rise in tandem with the number of cumulative deaths through time. There are deaths every year but securing the commissioning of new columbaria every year matching at least the number of estimated deaths is difficult if not impossible. Any assertion to the effect that public niche is an entitlement and/or the provision of niches rests entirely on the Government should not be accepted lightly. The Government has never had nor should it bear the sole responsibility. Private columbaria have always been and will continue to be an important source of niche provision for the community; and
- (c) the whole project planning and implementation process involves many different elements which are interdependent and the results of one study may affect the required scope of another study. The results could not be reasonably foreseen upfront. Also, there are complicated technical issues and costing implications involved in different options explored during the process for enhancing accessibility such as provision of escalator and stairways, etc.

Short-term supply of niches

2.23 Appendix F shows that the latest columbarium project completed was the Cheung Chau (Extension) Project in 2013, providing 1,000 niches. As a result of delays in project implementation under the District-based Columbarium Development Scheme, only one small project would be completed from 2014 to 2018. Table 2 shows the details.

Table 2

**Public columbarium projects to be completed from 2014 to 2022
(Position as at July 2015)**

Year	Project location	No. of niches
2014	Nil (Note)	—
2015	Nil (Note)	—
2016	Nil	—
2017	Nil	—
2018	Wong Nai Chung	855
2019	Tsang Tsui	160,000
	Wo Hop Shek — Phase 1	44,000
	Tsing Tsuen	20,000
2020	Cape Collinson	25,000
2021	—	—
2022	Sandy Ridge	200,000

Source: FEHD records

Note: The BMCPC completed three columbarium projects with 10,180 niches in 2014 and would complete two projects with 24,924 niches in late 2015.

Remarks: The 45,250 niches completed in 2012 under the Wo Hop Shek Kiu Tau Road Project and the Diamond Hill (Extension) Project were allocated in three phases from September 2012 to August 2015 (see para. 2.29(d)).

Supply of public niches

Acute shortage in short-term supply of public and private niches

2.24 Table 2 shows that the next project with substantial supply would be the Tsang Tsui Project with 160,000 niches planned for completion in 2019. From 2014 to 2018, there would be no completion of columbarium projects, except the Wong Nai Chung Project (with 855 niches) in 2018. If the BMCPC is to be taken into account, there would be supply of 10,180 and 24,924 niches in 2014 and 2015 respectively. There will be an acute shortage in the short-term supply of public niches from 2016 to 2018. As the Tsang Tsui Project is a major project to provide substantial number (160,000) of new niches in 2019, there is a need to closely monitor its progress to ensure timely completion.

2.25 Besides public niches, shortage in supply of niches could also be found in private columbaria. Since the introduction of the Private Columbaria Bill in June 2014, supply of niches from private columbaria has been affected and the supply would be limited in the initial years of the proposed licensing scheme (see paras. 4.13 to 4.15). As a result, both public and private niches would be in short supply in the next few years. FEHD records showed that the projected number of cremations from 2016 to 2018 would be about 133,000. Public demand for niches could not be met until the completion of the Tsang Tsui Project in 2019. There is a need to devise a plan and explore measures to address the impending acute shortage.

2.26 In Audit's view, the following options are worth considering:

- (a) promoting the use of unused urn spaces in allocated niches (see para. 3.35);
- (b) promoting the use of the FEHD's temporary storage service (see para. 3.40);
- (c) promoting green burials (see para. 5.6); and

- (d) advancing the allocation of the niches to be provided by the Tsang Tsui Project to alleviate the anticipated acute shortage in short-term supply of niches. In this way, public demand can be met earlier, and interment can start once the project is completed to save the lead time for the allocation process.

Audit recommendations

2.27 **Audit has *recommended* that the Director of Food and Environmental Hygiene should, in view of the acute shortage in short-term supply of niches from 2016 to 2018:**

- (a) **closely monitor the Tsang Tsui Project to ensure its timely completion in 2019 to meet the accumulated demand;**
- (b) **devise a plan and explore measures to address the acute short-term shortage; and**
- (c) **consider the feasibility of advancing the allocation of the niches to be provided under the Tsang Tsui Project with a view to alleviating the anticipated acute short-term shortage.**

Response from the Government

2.28 The Secretary for Food and Health and the Director of Food and Environmental Hygiene generally agree with the audit recommendations. They have said that:

- (a) to address the shortage in supply of niches from public projects, the FEHD will step up efforts to promote co-location of ashes in public niches, scattering of ashes at gardens of remembrance and at sea, and the Internet Memorial Service in the coming years; and
- (b) while advanced allocation of niches will not bring about any increase in overall supply of niches, the FEHD will consider the feasibility of advancing the entire process of publicity, application for and allocation of niches in respect of new columbaria by a few months such that interment of ashes can start as soon as a new columbarium project is completed.

Allocation of new niches

2.29 Upon the completion of a columbarium project, the FEHD will allocate the new niches to meet public demand. Different allocation arrangements were adopted in the past:

- (a) ***Before 2001.*** Supply was sufficient to meet demand. The available niches were allocated on a first-come-first-served basis;
- (b) ***From 2001 to 2006.*** Supply was still sufficient to meet demand on a first-come-first-served basis. On a daily basis, a batch of new niches were allocated randomly to applicants;
- (c) ***From 2006 to 2009.*** Demand began to outgrow supply with no stock for allocation on a first-come-first-served basis. New niches of completed columbarium projects were allocated by computer balloting in one go. No registration system or waiting list was set up; and
- (d) ***In 2012.*** The Diamond Hill Columbarium Extension (1,540 niches) and a new columbarium at Kiu Tau Road of Wo Hop Shek (43,710 niches) were completed in April and July respectively. With the approval of the FHB in September 2011, the FEHD decided to allocate the 45,250 new niches by computer balloting in three phases (10,622, 15,622 and 19,006 niches respectively) from September 2012 to August 2015, with a daily allocation of 110 niches (increased in steps to 125, 140 and 160 niches in the third phase). According to the FEHD, the phased allocation of niches by computer balloting was adopted to ensure a continuous and steady supply of niches over each of the three years of allocation.

Ombudsman's investigation of a public complaint

2.30 In May 2014, a citizen lodged a complaint with the Ombudsman against the FEHD for its improper arrangements in allocating columbarium niches. The complainant had participated in the first two phases of the allocation of the niches completed in 2012 (see para. 2.29(d)) but had not been allocated a niche after a long wait.

2.31 After investigation, in October 2014, the Ombudsman issued a report which found the complaint substantiated and identified inadequacies in the FEHD's niche allocation arrangements, including:

- (a) ***Phased allocation left many niches vacant for too long.*** The 45,250 niches were available in April/July 2012 but the FEHD allocated them in three phases over three years, leaving many available niches vacant for over two years. The FEHD's intention of having a continuous and steady supply of niches over each of the three years was merely an illusion created by phased allocation. The daily allocation of only 110 niches was not efficient. Not promptly allocating all the available niches was acting against the Government's policy objective of increasing the supply of niches as soon as possible; and

- (b) ***People unsuccessful in balloting might have to wait endlessly.*** Allocation of niches by balloting meant that some applicants might be unsuccessful and had to wait endlessly for a niche. There were bound to be people feeling distressed when their family members had passed away a long time ago and they could not secure a niche for the deceased. The Ombudsman considered that provision of niches was a basic service to the community. It would be more reasonable to adopt a registration system to allocate niches on a first-come-first-served basis.

2.32 The Ombudsman urged the FEHD to review the allocation arrangements in the following directions:

- (a) consider allocating niches on a first-come-first-served basis and strive to resolve the problem of long-waiting applicants; and

- (b) explore ways of further streamlining the allocation procedures.

2.33 The FEHD agreed with the Ombudsman's recommendation to review the allocation arrangements. As the arrangements for allocating the new niches were already publicly announced, the FEHD continued to adopt computer balloting for the third phase of the allocation exercise.

Supply of public niches

FEHD's considerations for adopting the current arrangements

2.34 From time to time, there were criticisms on the FEHD's arrangements for allocating niches, commenting that people with genuine need might not be able to secure a public niche. The FEHD had conducted internal reviews and sought the FHB's advice. FEHD records indicated that:

- (a) owing to the limited number of public niches and the uncertainty associated with the future supply of new niches, the FEHD considered that there was no one single allocation mechanism which could satisfy all demands;
- (b) the FEHD did not consider that the Government should undertake to provide a niche to each eligible applicant. The private sector should be encouraged to take part in the supply of niches;
- (c) in the FEHD's view, setting up a registration system and a waiting list for public niches would imply that the Government was responsible for providing a niche to each deceased resident. This arrangement would work only when there was a steady and continuous stream of supply. Otherwise, it would create a long queue and deprive those who died in later years of their chances of applying for public niches; and
- (d) there were merits in adopting phased allocation of niches by computer balloting. In fact, the FEHD had liaised with the BMCPC to stagger allocation exercises so that their schedules would dovetail with each other's and the supply of niches would spread evenly over the years.

Need to critically review allocation arrangements

2.35 Audit noted that the FEHD's above rationale and justifications for adopting phased allocation of new niches by computer balloting had not been adequately disclosed in any official documents for public deliberation. The allocation arrangements appear to be administrative measures for dealing with the problem of inadequate supply, which is not fully in line with the policy objective of increasing supply of columbarium niches to meet public demand. The allocation

arrangements also fell short of public expectation, resulting in complaints and the Ombudsman's investigation. For transparency and public accountability, the policy intentions of the allocation arrangements need to be disclosed for public deliberation.

2.36 Audit shares the Ombudsman's concern that allocation of new niches by three phases over three years had left many niches vacant for too long and had left many applicants waiting for too long. There is a need for a critical review of the allocation arrangements for new niches, with full disclosure of all the rationale and justifications of different options for public deliberation to enhance transparency.

2.37 LegCo Members have also expressed grave concern in recent years about the supply of public niches in Hong Kong and urged the Government to substantially increase the supply in the light of demographic changes. They were also concerned about the allocation arrangements of new niches. In April 2015, in response to an enquiry of a LegCo Member, the Government said that upon completion of the third phase of the allocation exercise in 2015, the FEHD would conduct a review. The review would take account of different views in the community and weigh the merits and demerits of various options before making a decision on the future allocation arrangements.

2.38 The next columbarium project with substantial supply of niches is the Tsang Tsui Project in Tuen Mun scheduled for completion in 2019. Audit noted that, in November 2014, the FEHD informed the Tuen Mun DC that it was planned to allocate the 160,000 niches provided under the project by phases of 20,000 niches a year over eight years. Audit considers that the FEHD should conduct the review of the allocation arrangements as soon as possible, and then make a decision about the allocation arrangements.

Audit recommendations

2.39 **Audit has *recommended* that the Secretary for Food and Health and the Director of Food and Environmental Hygiene should:**

- (a) **critically review the arrangements for allocating new niches, taking account of:**

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- (i) **the public expectation of a fair and efficient mechanism;**
 - (ii) **the concerns of LegCo Members; and**
 - (iii) **the Ombudsman's comments; and**
- (b) **report to LegCo the results of the review, with full disclosure of all the rationale and justifications of different options to enhance transparency.**

Response from the Government

2.40 The Secretary for Food and Health and the Director of Food and Environmental Hygiene generally agree with the audit recommendations. They have said that:

- (a) although the number of applications (31,342) for the allocation of niches in the third phase of Wo Hop Shek Kiu Tau Road Columbarium exceeded the number of niches (24,474) available for allocation, 5,069 new niches remained unallocated upon completion of the allocation process in August 2015. This indicates that it is not simply a matter of matching numbers of supply of and demand for niches, but also a matter of choice or preference of the applicants;
- (b) in the FEHD's opinion survey conducted on applicants of new niches provided in the Wo Hop Shek Kiu Tau Road Columbarium, about 80% of the respondents, regardless of whether they were successful in their applications, supported the current new niche allocation arrangements;
- (c) a review of the current allocation arrangements will be completed before the niches at Tsang Tsui are available for allocation in 2019. In conducting the review, the FHB/FEHD will take into account the views of bureaux/departments and various stakeholders, with a view to providing a fair and efficient allocation arrangement that best serves the public interest;

- (d) for projects with a large number of niches, allocation in phases is still preferred. Allocating all niches in one go would render those deceased between the commissioning dates of two public columbaria with minimal chances of securing niches in public columbaria; and
- (e) experience suggests that the visitation rate of newly allocated niches is higher upfront and would decline with time. If all the niches within a new columbarium are allocated at the same time, the traffic impact in the initial years could be acute for the neighbourhood. In fact, the phased in-take arrangement for the Tsang Tsui project is derived to address local concerns and help alleviate the possible traffic impact that may result from allocation of all niches in one go.

PART 3: BURIAL GROUNDS AND CREMATION SERVICES

3.1 This PART examines the burial grounds and cremation services provided to the public by the FEHD focusing on the following areas:

- (a) coffin burial grounds (paras. 3.2 to 3.8);
- (b) urn burial grounds (paras. 3.9 to 3.20);
- (c) cremation services (paras. 3.21 to 3.29); and
- (d) utilisation of public niches (paras. 3.30 to 3.44).

Coffin burial grounds

3.2 In the last few decades, the Government has encouraged cremation instead of coffin burial. Because of the wider acceptance of cremation over time, the number of coffin burials has decreased from over 10,000 a year in the 1970s to about 3,500 in 2014 at public and private cemeteries.

Surplus coffin burial grounds

3.3 The Wo Hop Shek Cemetery is the largest public cemetery and the only one with available spaces for coffin burials by the general public (Note 7). As at June 2015, the cemetery had 28 coffin burial sections. Each section was named by the year of burials. In line with the decreasing trend of coffin burial, the number of coffin burials in the cemetery had decreased from over 6,000 a year in the 1970s to about 700 in 2014.

Note 7: *Coffin burial spaces are also available for use by the local residents at the three public cemeteries on outlying islands, i.e. Cheung Chau Cemetery, Tai O Cemetery and Lai Chi Yuen Cemetery. Private cemeteries (see para. 1.18) also provide coffin burial spaces to their communities.*

3.4 Due to shortage of land, all coffin burials in public cemeteries are subject to a six-year exhumation policy. Allowing for a two-year buffer, coffin burial grounds in the Wo Hop Shek Cemetery can be reused every eight years. As the yearly demand for coffin burial spaces was less than 1,000, about 8,000 spaces would be sufficient to meet public demand. As at June 2015, there were 13 sections reserved for coffin burials. Eight of them provided about 6,000 burial spaces for burials in 2008 to 2015. The remaining five sections were reserved as buffer for providing 3,000 additional burial spaces when required.

3.5 With an increasing demand for columbarium niches, the FEHD had identified some surplus coffin burial sections in the Wo Hop Shek Cemetery for developing columbarium facilities. For example, Section 1987 had been used for building the Kiu Tau Road Columbarium (completed in 2012). Some other sections had been designated for implementing a project under the District-based Columbarium Development Scheme by three phases (see Item 5 of Appendix E). In Audit's view, there is a need to continue to identify suitable coffin burial sections for developing columbarium facilities, including the five burial sections reserved as buffer for providing additional coffin burial spaces (see para. 3.4).

3.6 For the remaining sections, due to steep topography, narrow terraces and dilapidated conditions over the passage of time, the FEHD considered that they were not suitable for reuse unless extensive repair and site formation works were carried out. Audit considers that, while not suitable for erecting multi-storey columbarium buildings, these sections may be used for erecting outdoor columbarium facilities, e.g. columbarium walls, which require less foundation and structural works. In view of the shortage of land for columbarium development, the development potential of these sections should be kept in view.

Audit recommendations

3.7 **Audit has *recommended* that the Director of Food and Environmental Hygiene should:**

- (a) **continue to identify suitable coffin burial grounds for developing columbarium facilities, including those sections reserved as buffer for providing additional burial spaces; and**

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- (b) **for coffin burial grounds considered not suitable for reuse, keep in view their development potential for columbarium facilities requiring less foundation and structural works, e.g. outdoor columbarium walls.**

Response from the Government

3.8 The Secretary for Food and Health and the Director of Food and Environmental Hygiene agree with the audit recommendations. They have said that given the shortage of sites for construction of possible columbaria, the FEHD stands ready to explore utilising any former coffin burial grounds confirmed to be technically feasible by the relevant works departments.

Urn burial grounds

3.9 After exhumation from coffin graves (see para. 3.4), skeletal remains are either reburied in urn graves of smaller size, or cremated and deposited in niches. In recent years, the public preferred cremation to urn burial. During 2014, there were 3,576 exhumations of coffin graves but only 1,051 (29%) urn burials at public and private cemeteries.

Allocation of urn burial spaces to facilitate effective land use

3.10 As at June 2015, the Wo Hop Shek Cemetery provided about 113,000 urn burial spaces in 59 urn burial sections. Each section was named by the year of burials. The number of urn burial spaces in each section varied from several thousands to below 100. Over the years, some urn burial spaces were returned to the FEHD with the skeletal remains exhumed and became vacant burial spaces. Of the 113,000 urn burial spaces, some 30,000 (27%) were vacant and scattered among the 59 sections. Applicants for urn burial spaces may choose between vacant spaces in old sections or spaces in the new section of the year.

3.11 In 2012, the FHB advised the FEHD to restrict allocation of used urn burial spaces to specified sections instead of all old sections, so that larger areas of vacant burial grounds might emerge in future years for columbarium development, other improvement or enhancement. The FEHD then proposed a new arrangement

under which no more new urn burial sections would be created, and only vacant burial spaces in two specified old sections would be provided for allocation. The proposed arrangement was objected to by the burial trade claiming that a new section should be created every year to meet market demand for new urn burial spaces, and that more old sections should be made available to provide more choices of urn burial spaces. In the event, the FEHD continued to provide new urn burial spaces in 2013 and beyond, making use of the section created in 2012, and specified five (instead of two) old sections for providing used urn burial spaces. Audit considers that there is a need to monitor the availability of vacant urn burial grounds for developing columbarium facilities and gardens of remembrance for green burial.

Mismatch cases of urn graves

3.12 ***Ombudsman's direct investigation.*** In 2004, after receiving a complaint (Note 8), the Ombudsman conducted a direct investigation on the administration of urn grave cemeteries by the FEHD. The investigation report commented that the records of urn graves were incomplete and inaccurate, contributing to the ineffective and inefficient administration of urn grave cemeteries. The Ombudsman recommended the FEHD to conduct a full-scale survey to verify the information of all urn graves to build up a computer database with complete and accurate records.

3.13 ***On-site surveys of all urn graves.*** In response to the Ombudsman's recommendations, the FEHD commissioned contractors to conduct a series of on-site surveys of all urn graves in public cemeteries, from 2005 to 2014 by phases. Of the 194,040 urn graves surveyed, 37,210 (19%) mismatch cases were found, including 17,048 cases subject to verification. Mismatch cases generally refer to cases in which the name of the deceased inscribed on the grave headstone did not match with that in FEHD records, including:

- (a) cases with surname on the headstone not matching with FEHD records;

Note 8: *The complainant's mother was buried in an urn grave in the Wo Hop Shek Cemetery in 1971. In 1985, someone applied and was approved to exhume the remains from the grave. In 2003, when the complainant's father applied for exhumation of his wife's remains, the FEHD told him that the remains were exhumed in 1985. Site inspection confirmed that the urn grave was empty. The FEHD made an ex-gratia payment to the complainant in January 2005.*

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- (b) cases with surname on the headstone matching with records but not the given name; and
- (c) co-burial graves with at least one name on the headstone not matching with records.

3.14 The FEHD considered that the information mismatch did not necessarily mean that the identity of the body buried in the urn grave was mistaken. Most of the mismatch cases were attributed to failure in the past to update official records, inaccurate data input, or suspected illegal burials. Table 3 shows the results of the full-scale survey.

Table 3

Results of the full-scale survey of urn graves

		Cemetery				
		Wo Hop Shek	Outlying islands (Note 1)	Diamond Hill	Sandy Ridge	Overall
No. of urn graves surveyed		123,324	13,433	31,297	25,986	194,040
Mismatch cases found	Number	16,428	3,734	12,116 (Note 2)	4,932 (Note 2)	37,210
	Percentage	13%	28%	39%	19%	19%
Date of completion of survey		October 2007	July 2011	August 2013	February 2015	—
Date/Expected date of completion of verification		July 2008	July 2012	April 2016	April 2016	—

Source: Audit analysis of FEHD records

Note 1: These are Cheung Chau Cemetery, Tai O Cemetery and Lai Chi Yuen Cemetery.

Note 2: The mismatch cases are subject to verification.

3.15 *Follow-up of mismatch cases.* In June 2009, on the FHB's advice (Note 9), the FEHD adopted a responsive approach under which the graves were left undisturbed and follow-up actions (Note 10) would only be taken on mismatch cases if and when exhumation applications were received (Note 11). The FEHD flagged all the verified mismatch cases in the computer records, and set up a special duty team to carry out follow-up actions. Up to March 2015, applications for exhumation related to 1,473 mismatch cases were received by the FEHD. The special duty team took follow-up actions and completed actions on 1,455 of them.

3.16 *Need to review the overall progress.* The overall progress of following up mismatch cases was slow. Of the 20,162 verified mismatch cases (i.e. 16,428 plus 3,734, see Table 3), only 1,455 (7%) cases were completed as of March 2015, over five years since the responsive approach was adopted in June 2009. There is a need to review the overall progress of following up mismatch cases.

3.17 *Need to report survey results and progress of follow-up actions.* The FEHD has reported the progress of the surveys of urn graves as follows:

Note 9: *The FHB and the FEHD had considered the options of:*

- (a) displaying notices at the gravestones of all the mismatch cases to invite grave-sweepers to contact the FEHD to update the records; and*
- (b) notifying the affected descendants by mail or telephone if contact information was available.*

It was considered that both options might cause unnecessary alarm to the public. The FHB advised the FEHD to adopt a responsive approach.

Note 10: *Follow-up actions included interviewing the applicant for exhumation related to mismatch cases to obtain information and documentary proof, posting a notice on the grave to notify parties that might have concerns on the exhumation application, and posting a notice on newspapers. Approval for exhumation would only be granted if investigation findings supported the applicant's claim over the grave, and no contesting claim had been received.*

Note 11: *The FEHD advised Audit in August 2015 that, in practice, follow-up actions would also be taken when applications (e.g. for repairing graves) relating to mismatch cases were received.*

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- (a) in December 2004, the LegCo Panel discussed the Ombudsman's direct investigation report on the administration of urn grave cemeteries. The FEHD was requested to provide a progress report on implementing improvement measures. In July 2005, the FEHD submitted a progress report to LegCo and mentioned that a full-scale survey of all urn graves would be conducted. However, the FEHD has not reported the survey results and progress of following up mismatch cases to LegCo; and
- (b) from 2005 to 2013, the FEHD reported regularly to the Ombudsman on the progress of implementing improvement measures.

3.18 Audit noted that the FEHD had not disclosed the results of the full-scale survey and the progress of following up mismatch cases. For transparency and public accountability, there is a need for the FEHD to do so.

Audit recommendations

3.19 **Audit has *recommended* that the Director of Food and Environmental Hygiene should:**

- (a) **continue to monitor the availability of vacant urn burial grounds for developing columbarium facilities and gardens of remembrance for green burial;**
- (b) **review the overall progress of following up mismatch cases of urn graves; and**
- (c) **consider reporting to LegCo the results of the full-scale survey of urn graves and the progress of following up mismatch cases.**

Response from the Government

3.20 The Secretary for Food and Health and the Director of Food and Environmental Hygiene agree with the audit recommendation in paragraph 3.19(a). They note the audit recommendations in paragraph 3.19(b) and (c), and have said that:

- (a) as and when the descendants related to mismatch cases come forward to apply for exhumation of the remains of the deceased or for grave repairs, action will be taken to rectify the inconsistency in the names of the deceased. This approach is to avoid causing unnecessary distress to the descendants. It is considered to be pragmatic and sensible given that the majority of cases was a historical problem dated back some decades ago; and
- (b) the majority of the mismatch cases involved discrepancies between the full names of the deceased on the headstones and in the file records. It was not uncommon for the older generations of Chinese to have more than one name. So far, the amendment of records does not appear to be one of common concern to the bereaved families.

Cremation services

3.21 The FEHD manages six public crematoria to provide services for cremating dead bodies and skeletal remains. There has been an increasing trend in the number of body cremations from 38,006 in 2010 to 41,244 in 2014. In order to expand the cremation capacity, the FEHD has commenced a series of works projects for reprovisioning the crematoria since 2000, at a total capital cost of about \$1,860 million. The overall cremation capacity will increase by 76% from some 30,000 to 52,838 sessions a year with the completion of the last project at the Cape Collinson Crematorium by the end of 2015. The FEHD expected that the increased capacity would meet the projected demand for cremation services up to 2025.

Need to review the performance pledge

3.22 The FEHD's current performance pledge on the booking of cremation services is that an applicant may book a cremation session within the next 15 days from the day of application. This performance pledge was set in 2000 with no revision so far. In the past, LegCo Members and the public have requested the FEHD to enhance the performance pledge by shortening the period within which the booking of a session was guaranteed from the existing 15 days, so that a bereaved family could arrange an earlier cremation.

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3.23 With the increase in the overall cremation capacity after completing the reprovisioning projects, Audit considers that the FEHD needs to review and enhance its performance pledge on booking of cremation services.

Promoting the use of eco-coffins

3.24 Traditional coffins are made of wood. Cremation of traditional coffins is considered costly and not environmentally friendly. In Japan, Europe and some Mainland cities, the use of eco-coffins for cremation is becoming popular in recent years. Eco-coffins are made of recycled paper and cardboard. They generally cost less and take considerable less fuel and less time for cremation than traditional coffins.

3.25 In 2006, the FEHD started to promote the use of eco-coffins. Since March 2008, the FEHD has required all licensed undertakers of burials to display and offer eco-coffins for the choice and purchase by bereaved families. The FEHD has also taken the lead to use eco-coffins for cremating unclaimed bodies.

3.26 The use of eco-coffins can reduce the consumption of wood, reduce emissions of pollutants during cremation, save fuel for cremation, and shorten cremation time, thus possibly making room for more cremation sessions in the long run. However, the FEHD's efforts since 2006 in promoting the use of eco-coffins have not resulted in increased popularity of eco-coffins. Among the 41,244 cremations of dead bodies in 2014, there were only 829 (2%) cases of using eco-coffins. Excluding the 387 cases of cremation of unclaimed bodies by the FEHD, there were only 442 (829 less 387, or 1%) cases of using eco-coffins by the general public.

3.27 While it may take time to effect a change in mindset and culture, Audit considers that the FEHD needs to identify and take more effective measures in overcoming barriers and promoting the use of eco-coffins, including the provision of incentives, such as priorities in booking cremation sessions and concessions in cremation charges (since cremating eco-coffins takes less fuel and time).

Audit recommendations

3.28 **Audit has *recommended* that the Director of Food and Environmental Hygiene should:**

- (a) **with the increase in the overall cremation capacity after completing the reprovisioning projects, review and enhance the performance pledge on booking of cremation services; and**
- (b) **identify and take more effective measures in promoting the use of eco-coffins.**

Response from the Government

3.29 The Secretary for Food and Health and the Director of Food and Environmental Hygiene agree with the audit recommendations. They have said that:

- (a) the FEHD will review the performance pledge from time to time taking into account views of users, the availability of resources and operational feasibility. At present, additional cremation sessions would be arranged in designated crematorium to meet service demand if the regular cremation sessions are fully booked; and
- (b) the FEHD will also continue promoting the use of eco-coffins.

Utilisation of public niches

Potential supply of urn spaces in allocated niches

3.30 ***Placing additional urns in public niches.*** The FEHD provides two types of public niches i.e. a standard niche for placing two urns and a large niche for four urns. A person allocated a niche can apply for placing additional sets of ashes in the niche at a fee of \$140. The additional set of ashes has to be of a deceased who was a close relative of the deceased whose ashes were first placed in the niche.

Burial grounds and cremation services

3.31 *Relaxations in placing additional urns.* To enhance the utilisation of urn spaces in public niches, in January 2014, the FEHD relaxed some restrictions on placing additional urns, as follows:

- (a) the definition of close relative (Note 12) was expanded to include grandparents, and any deceased persons with close relationship with the deceased whose ashes were first placed in the niche; and
- (b) the cap on number of urns placed in a niche (i.e. two for a standard niche and four for a large niche) was removed.

3.32 The FEHD carried out publicity on the relaxations, including announcement in the FEHD's website, distribution of a new leaflet and broadcasting a radio Announcement in the Public Interest. The placements of additional urns have increased from 2,830 in 2013 to 3,258 in 2014 by 428 (15%).

3.33 *Unused urn spaces in public niches.* As at June 2015, there were 201,317 occupied public niches, providing 433,842 urn spaces (Note 13). According to FEHD records, about 77% (155,296) of the occupied niches had unused urn spaces. Audit estimated that there were 175,678 (40%) unused urn spaces, as follows:

- (a) 140,350 unused urn spaces in 185,713 occupied standard niches; and
- (b) 35,328 unused urn spaces in 15,604 occupied large niches.

Note 12: *Before 2006, the definition of close relative referred to spouse, parent, brother, sister or a direct descendant of either the male or female line. In June 2006, the definition was revised to further include mother-in-law, father-in-law, son-in-law and daughter-in-law of the deceased.*

Note 13: *The number of urn spaces was estimated on the basis that each standard niche had two urn spaces, and each large niche had four urn spaces.*

3.34 *Unused urn spaces in the BMCPC's niches.* The BMCPC also provides niches to the general public in its private cemeteries, comprising ordinary niches (each with two urn spaces) and family niches (each with four urn spaces). To enhance the utilisation of urn spaces in its niches, in 2015, the BMCPC started the process to relax some restrictions (Note 14) on placing additional urns. As at June 2015, about 76% of its 231,000 occupied niches had unused urn spaces. Audit estimated that there were at least 175,000 unused urn spaces ($231,000 \times 76\%$, assuming all niches were ordinary niches).

3.35 *Unused urn spaces for meeting demand for niches.* Audit estimated that there were a total of at least 351,000 (176,000 plus 175,000) unused urn spaces in the FEHD's and the BMCPC's niches. These unused urn spaces is a potential and instant supply for meeting some of the public demand for niches. Families with allocated niches can make use of the unused urn spaces instead of applying or waiting for new niches for their newly deceased family members. In Audit's view, there is a need to increase the use of the unused urn spaces. This is particularly important as there will be an acute shortage of supply in both public and private niches from 2016 to 2018 (see paras. 2.24 to 2.26). Another benefit of placing additional urns in existing niches rather than placing them in new niches of other locations is that the families do not have to visit two or more locations for paying tribute, thus reducing traffic flow during the grave-sweeping seasons.

3.36 *Promotion of placing additional urns.* All along, the FEHD had not ascertained the reasons for having so many unused urn spaces in niches. The reasons may include:

- (a) the public are not aware of the service of placing additional urns in niches;
- (b) they do not prefer to do so; and
- (c) their needs for doing so have not arisen yet.

Note 14: *The relaxations include expanding the eligibility for use of a family niche to include married daughters, grandparents, great grandparents, grandparents-in-law and great grandparents-in-law of the first deceased, and removing the maximum number of sets of ashes that can be placed in a niche.*

Burial grounds and cremation services

In Audit's view, there is a need to conduct a survey to ascertain the reasons with a view to devising more effective promotion and publicity measures to enhance the utilisation of unused urn spaces.

3.37 Audit considers that the FEHD needs to enhance the public's awareness of the service and benefits of placing additional urns in niches. One promotion measure is to place a prominent note of the benefits of the service on relevant application forms of burial and cremation services (such as the application forms for cremation, new niche allocation, used niche allocation, and temporary storage of ashes) and in the booklet "A Guide to After-Death Arrangements" (see para. 1.9). The FEHD also needs to consider providing incentives for placing additional ashes in niches, e.g. waiving the service fee of \$140. As the BMCPC also has a substantial number of unused urn spaces in its niches, the FEHD needs to consider working together with the BMCPC to carry out promotion and publicity activities on placing additional urns in niches.

3.38 *Co-burial of ashes in urn graves.* A person with an allocated urn grave may apply for co-burial of additional sets of ashes or skeletal remains in the urn grave, subject to similar kinship restrictions. There is no limit on the number of sets of ashes or skeletal remains to be co-buried in an urn grave. As at June 2015, co-burials were only found in 2,427 (2%) of the total of 117,627 occupied urn graves in public cemeteries which allow co-burial of ashes. In view of the shortage of niches, the FEHD also needs to promote the option of co-burial of cremated ashes with skeletal remains in urn graves. In this connection, Audit noted that for this service the FEHD charged a fee of \$6,305, which was equivalent to the fee for a new urn grave. To promote co-burial in urn graves, there is a need to review the basis and reasonableness of the level of this fee.

Temporary storage of cremated ashes

3.39 Upon completion of a cremation at a public crematorium, the set of ashes (stored in a bag) can be temporarily stored at the crematorium for a period not exceeding two months free of charge. As the storage service is temporary, ashes stored in an urn are not accepted and paying of tribute is not allowed during the storage period.

3.40 In October 2011, the FEHD introduced a service of temporary storage of ashes at the Kwai Chung Crematorium. A bereaved family can apply for the storage service upon expiry of the two-month free storage at a crematorium or anytime thereafter, at a monthly fee of \$80. No paying of tribute is allowed during the storage period.

3.41 The capacity of the temporary storage service at the Kwai Chung Crematorium is about 10,000 sets of ashes. FEHD records indicated that the utilisation of the service was low as less than 50 sets of ashes were stored at the end of each month. Since service commencement to March 2015, there were only 222 cases of using the service. Audit noted that there were comments that the public might not be aware of the FEHD's temporary storage service. At the same time, undertakers of burials also provided temporary storage of ashes at their premises for a fee. As at May 2014, there were 17,600 sets of ashes stored at the premises of undertakers of burials (see para. 4.20).

3.42 Audit noted that the FEHD might not have adequately promoted its temporary storage service as this service was not prominently displayed on its website. Moreover, the service was not mentioned in the body of its booklet "A Guide to After-Death Arrangements" (see para. 1.9), but just in a footnote to an appendix about service fees. Audit considers that the FEHD needs to more actively promote its temporary storage service. One promotion measure is to place a prominent note of the service on relevant application forms of FEHD burial and cremation services (such as the application forms for cremation, new niche allocation, and used niche allocation) and in its booklet. Another promotion measure worth considering is to facilitate the public to use the service by accepting cremated ashes stored in an urn.

Audit recommendations

3.43 **Audit has *recommended* that the Director of Food and Environmental Hygiene should:**

- (a) **take the following measures to increase the public's use of the unused urn spaces in allocated niches to meet public demand for niches:**

Burial grounds and cremation services

- (i) **conducting a survey to ascertain the reasons for not placing additional urns in niches with a view to devising more effective promotion and publicity measures;**
 - (ii) **enhancing the public’s awareness of the service by placing a prominent note on relevant application forms of burial and cremation services and in the booklet “A Guide to After-Death Arrangements”;**
 - (iii) **considering the feasibility of providing incentives for using the service, e.g. waiving the service fee; and**
 - (iv) **working together with the BMCPC to carry out promotion and publicity activities;**
- (b) **promote placing urns of cremated ashes in urn graves of public cemeteries and review the level of fee of this service; and**
- (c) **actively promote the FEHD’s service of temporary storage of cremated ashes by:**
- (i) **placing a prominent note of the service on relevant application forms of burial and cremation services and in the booklet “A Guide to After-Death Arrangements”; and**
 - (ii) **facilitating the public to use the service by accepting cremated ashes stored in an urn.**

Response from the Government

3.44 The Secretary for Food and Health and the Director of Food and Environmental Hygiene agree with the audit recommendations. They have said that:

Burial grounds and cremation services

- (a) there are merits in increasing the use of the unused urn spaces in allocated niches through more effective promotion and publicity measures as well as collaboration with the BMCPC on promotion and publicity activities. Nevertheless, the actual need for co-location may not arise until such time as close relatives within the same family pass away;

- (b) there are notes on co-location of ashes in the existing application forms for new niche allocation and used niche allocation respectively. There is also a section on placing additional urns in allocated niches in the booklet “A Guide to After-Death Arrangements”; and

- (c) the FEHD anticipates that, upon the commencement of the proposed licensing scheme, some private columbaria will cease to operate and there could be quite a large number of cases involving displaced ashes. The FEHD’s temporary storage facilities may be called upon to help handle this contingency.

PART 4: REGULATION OF PRIVATE COLUMBARIA, UNDERTAKERS OF BURIALS AND FUNERAL PARLOURS

4.1 This PART examines the Government's efforts in the following areas:

- (a) regulation of private columbaria (paras. 4.2 to 4.17); and
- (b) regulation of undertakers of burials and funeral parlours (paras. 4.18 to 4.28).

Regulation of private columbaria

Unauthorised private columbaria

4.2 Private columbaria play an important role in supplying niches and providing choices to the public. There has been an upsurge of private columbaria in recent years, partly due to the shortage in supply of public niches. Many private columbaria do not comply with statutory and government requirements arising from town planning, land leases and building safety, and are therefore unauthorised private columbaria. There has been public concern over the regulation of private columbaria.

4.3 In order to assist the public to make informed decisions about purchasing niches from private columbaria, the Development Bureau has since December 2010 published a list of private columbaria with quarterly updating. The list sets out private columbaria made known to the Planning Department and the Lands Department, and comprises two parts. Part A sets out private columbaria which are compliant with statutory town planning requirements and user restrictions in the land leases, and are not illegally occupying government land. Part B sets out other private columbaria which have been confirmed as not compliant with these requirements (i.e. unauthorised columbaria) and those pending checking for compliance. As at June 2015, there were 30 private columbaria listed in Part A, and 126 private columbaria listed in Part B.

Proposed licensing scheme for private columbaria

4.4 ***Consultation on the review of columbarium policy.*** In July 2010, the FHB launched a public consultation on the review of columbarium policy (see para. 1.15). The consultation results indicated that the public strongly supported introducing a licensing scheme to enhance regulation of private columbaria and consumer protection in choosing private columbarium facilities. Nevertheless, the public expressed divergent views over the scope and intensity of regulation and the arrangements for existing private columbaria.

4.5 ***Consultation on a licensing scheme for private columbaria.*** In December 2011, the FHB launched another public consultation on a licensing scheme for private columbaria. In June 2014, the Government introduced to LegCo the Private Columbaria Bill for setting up a licensing scheme. A Bills Committee was formed to examine the Bill. The proposed licensing scheme was planned to commence in mid-2016 with the following objectives:

- (a) ensuring compliance with statutory and government requirements by private columbaria, with suitable grandfathering arrangements for pre-Bill columbaria (i.e. existing columbaria when the Bill was announced on 18 June 2014) in tightly ring-fenced circumstances;
- (b) enhancing protection of consumer interests; and
- (c) ensuring a sustainable mode of operation.

4.6 The following is a brief description of the key features of the proposed licensing scheme for private columbaria:

- (a) ***Compliance with statutory and government requirements.*** A private columbarium (unless with an exemption — see (b) below, or a temporary suspension of liability — Note 15) must obtain a licence to operate. To

Note 15: *A temporary suspension of liability allows a pre-Bill columbarium to continue operation (without selling of interment rights) before a licence/exemption is issued. Therefore, when applying for a licence/exemption, a pre-Bill columbarium will also apply for a temporary suspension of liability.*

Regulation of private columbaria, undertakers of burials and funeral parlours

obtain a licence, a private columbarium has to comply with statutory and government requirements including those arising from town planning, land leases and building safety;

- (b) *A pre-Bill columbarium can apply for an exemption.* Under an exemption, a pre-Bill columbarium can continue operation but cannot sell interment rights. To be eligible for an exemption, a pre-Bill columbarium must have commenced operation before 1 January 1990 and must have ceased selling interment rights since the Bill announcement time, i.e. 8:00 a.m. on 18 June 2014. As long as an exemption is in force, developments not compliant with statutory town planning requirements might be tolerated. Also, structures not compliant with statutory building requirements might also be tolerated, subject to certification by an Authorised Person/Registered Structural Engineer to be structurally safe and carrying out any works that the Licensing Board may require; and
- (c) *A pre-Bill columbarium can apply for a licence.* Under a licence, a pre-Bill columbarium can continue operation and sell interment rights. Structures not compliant with statutory building requirements might be tolerated, subject to certification by an Authorised Person/Registered Structural Engineer to be structurally safe and carrying out any works that the Licensing Board may require.

4.7 When the FHB announced the Private Columbaria Bill in June 2014, the FEHD at the same time rolled out a notification scheme. The purpose of the scheme was to collect information on pre-Bill columbaria as at the Bill announcement date, which would be used in processing their applications for licence/exemption/temporary suspension of liability under the proposed licensing scheme. Based on the information collected (up to June 2015), there were 140 pre-Bill columbaria.

Inadequate enforcement actions against unauthorised columbaria

4.8 Audit conducted an analysis of the 126 private columbaria included in Part B of the Development Bureau's list of private columbaria as at June 2015 (see para. 4.3). Tables 4 and 5 show the analysis results.

**Regulation of private columbaria,
undertakers of burials and funeral parlours**

Table 4

**Compliance status with town planning requirements of
Part B private columbaria
(June 2015)**

Status		No. of columbaria
Not in compliance with town planning requirements	Town planning application not submitted	83 (66%)
	Town planning application in progress	8 (6%)
	Town planning application withdrawn or rejected	19 (15%)
In compliance with town planning requirements or not covered by statutory plans		16 (13%)
Total		126 (100%)

} 110 (87%)

Source: Audit analysis of Development Bureau records

Table 5

**Compliance status with land lease conditions of
Part B private columbaria
(June 2015)**

Status	No. of columbaria
Columbarium use not permitted under lease/licence/tenancy conditions	65 (51%)
Unauthorised occupation of government land	12 (10%)
Columbarium use not permitted and unauthorised occupation of government land	7 (6%)
Columbarium use may be permitted, or breach of lease/licence/tenancy conditions not yet established or under litigation	42 (33%)
Total	126 (100%)

} 84 (67%)

Source: Audit analysis of Development Bureau records

Regulation of private columbaria, undertakers of burials and funeral parlours

4.9 Of the 126 Part B private columbaria as at June 2015, 124 were unauthorised private columbaria and 2 were private columbaria pending checking for compliance with land lease conditions. Among the 124 unauthorised private columbaria:

- (a) 110 (89%) were not compliant with town planning requirements;
- (b) 84 (68%) were not compliant with land lease requirements; and
- (c) 70 (56%) were not compliant with both town planning and land lease requirements.

4.10 A brief outline of the enforcement actions that may be taken against unauthorised columbaria is as follows:

- (a) for unauthorised developments in rural areas of the New Territories designated as development permission areas, the Planning Department may issue an enforcement notice requiring the unauthorised development to discontinue;
- (b) for breach of land lease conditions, the Lands Department may issue a warning letter requesting rectification;
- (c) for unauthorised occupation of government land, the Lands Department may issue a statutory notice requiring the occupation to cease;
- (d) for unauthorised building works, the Buildings Department may issue a warning notice or a removal order; and
- (e) for the enforcement instruments mentioned above, if they are not followed, the enforcement department may take follow-up enforcement actions, such as registering the notice/letter at the Land Registry, prosecuting the party concerned, and re-entering the land concerned.

Regulation of private columbaria, undertakers of burials and funeral parlours

4.11 The relevant departments took enforcement actions according to their own enforcement policies, procedures and priorities, usually upon receipt of complaints and referrals. There were comments from LegCo Members and the public that enforcement actions against unauthorised columbaria were not adequate. Meanwhile, the number of unauthorised columbaria increased substantially from 52 (as at December 2010 when the Development Bureau first published the list) to 124 (as at June 2015), by 72 (138%) in a period of less than five years. In response to the audit observations, the Development Bureau said that unauthorised columbaria might already exist but were not made known to the Planning Department or the Lands Department when the list was first published in 2010. The increase in the number of unauthorised columbaria in the past five years was a result of multiple factors, including the increase in complaints/referrals, and the departments' enforcement actions in response to complaints/referrals received.

4.12 Under the proposed licensing scheme for private columbaria, it will be an offence to operate a private columbarium without a licence/an exemption/a temporary suspension of liability. The FEHD will be the enforcement department. There is a need for the FEHD to devise an enforcement system under the new licensing scheme in a timely manner, with a mechanism for coordinating the efforts of other enforcement departments to bring forth concerted efforts to ensure efficiency and effectiveness of the enforcement system.

Shortage in short-term supply of private niches

4.13 According to the proposed licensing scheme, in order to apply for an exemption, a private columbarium must have ceased selling or letting out niches since the announcement of the Bill in June 2014. Owing to this, private columbaria planning to apply for exemptions have ceased selling or letting out niches, and this has affected the supply of private niches since June 2014. In fact, after introducing the Bill, the FHB advised the public wishing to buy or rent niches from a private columbarium to be vigilant about the risk and refrain from making any rash decision, so as to avoid any loss in case of the columbarium failing to obtain a licence.

4.14 Furthermore, when the proposed licensing scheme comes into operation (expected to be in mid-2016), the supply of private niches will be further affected as follows:

- (a) private columbaria cannot sell or let out niches unless they have obtained licences; and

Regulation of private columbaria, undertakers of burials and funeral parlours

- (b) application for a licence can only be made three months later to allow time for the setting up of the Licensing Board. Moreover, time is required for processing applications before licences can be issued.

4.15 There will be a period of several months with no supply of private niches after the commencement of the licensing scheme. The supply from licensed columbaria in the coming years is also uncertain as the FHB has pointed out that the number of licences to be issued and the number of niches allowed for each licence could not be ascertained at this stage. This has a significant effect on meeting the community's demand for niches, particularly so when there will also be no supply of public niches from 2016 to 2018 (see paras. 2.24 to 2.26). In Audit's view, there is a need for the FEHD to take measures to facilitate private columbaria to apply for licences under the licensing scheme. Such measures may include promulgating guidelines on how to comply with licensing requirements and requirements arising from town planning, land leases and building safety.

Audit recommendations

4.16 **Audit has *recommended* that the Director of Food and Environmental Hygiene should plan ahead to:**

- (a) **devise an enforcement system under the proposed licensing scheme in a timely manner, with a mechanism for coordinating the efforts of other enforcement departments to ensure efficiency and effectiveness in taking enforcement actions against unlicensed columbaria; and**
- (b) **take measures to facilitate private columbaria to apply for licences under the proposed licensing scheme.**

Response from the Government

4.17 The Secretary for Food and Health and the Director of Food and Environmental Hygiene agree with the audit recommendations. They have said that:

Regulation of private columbaria, undertakers of burials and funeral parlours

- (a) under the proposed licensing scheme, the various eligibility criteria for licences (e.g. those relating to town planning, land leases and building safety) reflect the requirements of other relevant authorities. The FEHD will put in place a mechanism to facilitate coordination with these authorities to ensure that individual operations are handled effectively and efficiently. Likewise, the FEHD will inspect private columbaria and enforce the laws in close consultation with other relevant departments; and

- (b) the FEHD will promulgate relevant application guide and information in its website and other media to facilitate prospective applicants under the proposed licensing scheme.

Regulation of undertakers of burials and funeral parlours

Regulation of undertakers of burials

4.18 According to the Undertakers of Burials Regulation under the PHMSO, an undertaker licence is required for conducting the business of undertaking all or any duties connected with the burial (including cremation) of human bodies. As at June 2015, there were 113 licensed undertakers.

4.19 ***Temporary storage of ashes by undertakers.*** All along, undertakers of burials have provided their customers with a service of temporary storage of ashes at their licensed premises (notably in some residential buildings in Hung Hom). Audit noted that in some cases, the undertakers were involved in the operation of unauthorised private columbaria. In 2008, the FEHD started to disallow newly licensed undertakers to provide the temporary storage service. Nevertheless, for 81 licences issued before December 2008, the undertakers can still provide the service.

4.20 For the 81 undertakers with old licences, the proposed licensing scheme does not apply to them (except the part on ash disposal), and they are allowed to continue to provide the temporary storage service. The FEHD estimated that there were about 17,600 sets of ashes temporarily stored by them as at May 2014. To tighten up the regulation of their temporary storage of ashes, the FEHD has planned to impose additional licensing requirements, including the following:

Regulation of private columbaria, undertakers of burials and funeral parlours

- (a) the storage is limited to the ashes of those deceased for whom funeral services have been provided by the licensee;
- (b) the number of sets of ashes temporarily stored cannot exceed the ceiling imposed by the FEHD; and
- (c) funeral/religious rituals are not permitted at the licensed premises.

4.21 However, Audit has noted that there is no additional licensing requirement on the time limit for temporary storage. There are concerns that such a requirement is necessary to prevent the temporary storage service from becoming a columbarium operation. In Audit's view, the FEHD needs to consider imposing an additional licensing requirement on the time limit for temporary storage.

4.22 For imposing additional licensing requirements, the FEHD conducted two rounds of consultation with the undertakers in September and October 2014. As at October 2015, the FEHD intended that:

- (a) a survey would be conducted in late 2015 tentatively to determine the ceiling of the temporary storage for each of the 81 undertakers with old licences; and
- (b) the additional licensing requirements would take effect after licence renewal, with the earliest in the first quarter of 2016, and the latest in the first quarter of 2017.

4.23 In Audit's view, the FEHD needs to expedite action to impose additional licensing requirements to tighten up the regulation of the temporary storage of ashes by the undertakers with old licences, so that such requirements can take effect in tandem with the proposed licensing scheme for private columbaria.

Regulation of funeral parlours

4.24 According to the Funeral Parlours Regulation under the PHMSO, a licence is required for carrying on the business of a funeral parlour. The FEHD has specified a list of requirements for obtaining a funeral parlour licence, which are generally hygiene requirements relating to the selection of sites and premises, and the lighting, ventilation, water supply and sanitary fitments of the premises to be licensed. As at June 2015, there were seven licensed funeral parlours.

4.25 *A judicial review case under appeal.* On Cheung Chau, there is no licensed funeral parlour. For years, a pavilion managed by the Cheung Chau Rural Committee has been used as a place for conducting condolence ceremonies (with placement of coffins containing dead bodies) for deceased residents of Cheung Chau. There were public complaints to the FEHD about the hygiene and nuisance problems caused by the pavilion, and the fact that it had not been licensed to carry on the business of a funeral parlour. In response, the FEHD considered that the pavilion had not been operating as a funeral parlour and enforcement actions were not needed. In July 2014, after filing rounds of public complaints with no results, a Cheung Chau resident applied for a judicial review about the FEHD's decision not to take enforcement actions against the pavilion. According to his application for the judicial review, the applicant alleged that the Cheung Chau Rural Committee had carried on the business of a funeral parlour without a licence, and the Director of Food and Environmental Hygiene had acted unlawfully in failing to accede to the applicant's complaints and had refused to enforce the law under the Funeral Parlours Regulation.

4.26 In February 2015, the High Court found in favour of the applicant and directed that the Director of Food and Environmental Hygiene should reconsider whether the pavilion had been used as a funeral parlour under the Regulation, and whether any enforcement actions under the Regulation needed to be carried out. In March 2015, the Government applied for an appeal which was scheduled to be heard in March 2016.

Audit recommendations

4.27 **Audit has *recommended* that, regarding the temporary storage of cremated ashes by the 81 undertakers of burials with old licences, the Director of Food and Environmental Hygiene should:**

- (a) **consider including an additional licensing requirement on the time limit for temporary storage; and**
- (b) **expedite action to impose additional licensing requirements.**

Response from the Government

4.28 The Secretary for Food and Health and the Director of Food and Environmental Hygiene agree with the audit recommendations. They have said that the FEHD agrees in principle to the need to impose additional licensing requirements on the time limit for temporary storage of cremated ashes by the licensed undertakers. However, when to do so and the precise requirements should take into account the practical corollary of the need to handle displaced ashes. An appropriate time could be when there is either a noticeable decline in the demand for niches or a significant increase in the supply of niches.

PART 5: WAY FORWARD

5.1 This PART explores the way forward for providing burial and cremation services, promoting green burials, and ensuring sustainability of the supply of public niches.

Background and recent developments

5.2 Since the 1970s, the Government has been encouraging cremations instead of coffin burials. Coupled with the increasing number of deaths, this has resulted in a rising demand for columbarium niches. However, a number of public columbarium projects were shelved during the 2000s due to objections from local communities. There has been an inadequate supply of public niches, and an upsurge of private columbaria, many of them do not comply with statutory and government requirements. There has been concern over the shortage of public niches and the regulation of private columbaria.

5.3 The FHB conducted public consultations in July 2010 and December 2011 on the review of columbarium policy, and a licensing scheme for private columbaria respectively. The Government has formulated a columbarium policy based on a three-pronged strategy comprising promotion of green burials, a robust supply of public columbaria, and enhanced regulation of private columbaria. The Government is implementing a District-based Columbarium Development Scheme, and introducing a new licensing scheme for private columbaria.

Provision of burial and cremation services

5.4 The audit review has found areas for improvement in the provision of burial and cremation services, including the following:

Way forward

Supply of public niches

- (a) the progress of implementing the District-based Columbarium Development Scheme was not entirely satisfactory. So far, only two small projects have been completed and the next major project would not be completed until 2019;
- (b) there would be an acute shortage in the supply of public niches from 2016 to 2018. Furthermore, the supply of niches from private columbaria would be severely affected in the short run by the introduction of the proposed licensing scheme. There is a need for a plan and effective measures to alleviate the shortage in supply of niches;
- (c) the phased allocation of new niches by computer balloting adopted by the FEHD has left many new niches vacant for a long time. For transparency and public accountability, the rationale and justifications of adopting the allocation arrangements should be disclosed for public deliberation;

Burial grounds and cremation services

- (d) a full-scale survey of urn graves in public cemeteries revealed some 37,000 cases of mismatch between the name inscribed on the grave headstone and the name in FEHD records. The FEHD carried out follow-up actions based on a responsive approach and had dealt with some 1,500 mismatch cases so far. The survey results and the progress of following up mismatch cases have not been reported externally;
- (e) the FEHD's efforts since 2006 in promoting the use of eco-coffins have shown slow progress. The use of eco-coffins only accounted for 2% of cremations in 2014;
- (f) about 77% of the some 201,000 allocated public niches had unused urn spaces for placing some 176,000 additional urns. There is a need to increase the public's use of the unused urn spaces to meet public demand for niches;

Regulation of private columbaria, undertakers of burials and funeral parlours

- (g) the number of unauthorised private columbaria increased by 72 (138%), from 52 as at December 2010 to 124 as at June 2015. There were inadequate enforcement actions against unauthorised private columbaria; and
- (h) actions to tighten up control over temporary storage of ashes by undertakers of burials were slow and inadequate.

5.5 Audit considers that the FEHD needs to take on board the observations and recommendations in this Audit Report to improve its burial and cremation services.

Green burials

5.6 According to the Government, while it is making every effort to increase columbarium facilities, it is not realistic to expect the supply of new niches to ever catch up with the rising demand due to the growing population and competing demands for land in Hong Kong. Since 2007, the FEHD has been taking measures to encourage the community's acceptance of more sustainable forms of interment (i.e. green burials), including the scattering of ashes at gardens of remembrance and at sea.

5.7 *Scattering of ashes at gardens of remembrance.* The FEHD operates 11 gardens of remembrance at its eight public columbaria. The gardens have scenic and tranquil settings and are decorated with seasonal flowers regularly. Dedicated walls are erected at each garden for mounting plaques in memory of the deceased. The number of cases of scattering of ashes at gardens of remembrance has increased from 175 in 2007 to 2,697 (7% of cremations) in 2014.

5.8 *Scattering of ashes at sea.* At three designated waters, namely East of Tap Mun, East of Tung Long Chau and South of West Lamma Channel, scattering of ashes is allowed. In January 2010, to promote scattering of ashes at sea, the FEHD introduced a free ferry service. Since then, the FEHD has further enhanced

Way forward

the service by employing a bigger vessel and increasing the number of sails (from two to three and then four sails a month). The number of cases of scattering of ashes at sea has increased from 160 in 2007 to 856 (2% of cremations) in 2014.

5.9 ***Internet Memorial Service.*** To further promote sustainable forms of interment and remembrance, the FEHD in June 2010 introduced the Internet Memorial Service by providing a memorial website (www.memorial.gov.hk) to enable users to pay tribute to their loved ones at anytime and from anywhere in place of burning joss sticks and paper offerings. Users can create memorial webpages on which they can write the deceased's life stories, express condolences and select electronic offerings. As at 31 March 2015, there were 6,670 registered users and 7,262 memorial webpages.

More efforts needed for promoting green burials

5.10 Despite the FEHD's efforts since 2007 in promoting green burials, scattering of ashes at gardens of remembrance and at sea only accounted for a small percentage of cremations, at 7% and 2% respectively in 2014. Audit considers that more need to be done by the FEHD in promoting green burials.

5.11 ***Registering wishes for green burials.*** The FEHD conducted questionnaire surveys on users of its green burial services. Survey results indicated that the main reason for choosing such services was "wish of the deceased". A central register for citizens to register their wishes for green burials will help the fulfilment of such wishes. There is merit in setting up a register for green burials.

5.12 ***Providing spaces for mounting memorial plaques.*** Based on the results of questionnaire surveys, users of scattering of ashes at gardens of remembrance welcomed the mounting of plaques of the deceased on memorial walls. Audit noted that the space for mounting memorial plaques at gardens of remembrance was limited. In June 2015, the FEHD provided additional space for mounting memorial plaques at three gardens of remembrances before the space was used up. There is a need to plan ahead and provide spaces for mounting memorial plaques before they are used up. In this connection, using electronic displays (with rolling displays of the deceased and search functions) to supplement mounting memorial plaques is also a sustainable option for consideration.

5.13 ***Providing a memorial place for scattering of ashes at sea.*** The FEHD participates in an annual fair targeted at senior citizens with a view to promoting green burials. Based on the results of questionnaire surveys conducted during the fairs, one major reason for not using scattering of ashes at sea was “lack of a memorial place”. To address this need, the FEHD has been searching for a site near the sea to provide a memorial place for this service. So far, a suitable site has not been identified. The FEHD needs to step up its searching efforts. Audit notes that the new columbarium to be built in Tsang Tsui of Tuen Mun (see Item 7 of Appendix E) is located at the seashore of Deep Bay. This should be a suitable site worth considering.

5.14 ***Monitoring the utilisation of the Internet Memorial Service.*** In July 2011, the FEHD conducted a survey on users to identify improvement areas. Afterwards, the FEHD implemented a number of improvement measures, e.g. expanding the coverage to include the deceased whose ashes were interred at private cemeteries or private columbaria (previously the service is only for those whose ashes were interred at public facilities), and providing a mobile version of the service. Despite such efforts, there was a decrease in the number of new user registrations in 2014, and a decrease in the number of visits to the website in the first quarter of 2015. There is a need for the FEHD to monitor the utilisation of the Internet Memorial Service and identify additional promotion measures.

Audit recommendations

5.15 **Audit has recommended that the Director of Food and Environmental Hygiene should step up efforts to continue to promote green burials, particularly:**

- (a) **consider establishing a register of green burials for citizens to register their wishes for scattering of ashes at gardens of remembrance or at sea;**
- (b) **provide adequate spaces for mounting memorial plaques at gardens of remembrance, and explore the use of other means for paying tribute to the deceased;**

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- (c) **search for a suitable site for providing a memorial place for scattering of ashes at sea; and**
- (d) **monitor the utilisation of the Internet Memorial Service, and identify additional promotion measures.**

Response from the Government

5.16 The Secretary for Food and Health and the Director of Food and Environmental Hygiene generally agree with the audit recommendations. They have said that:

- (a) the FEHD will continue to explore and consider other options and measures to further promote the awareness and acceptance of green burials; and
- (b) the FEHD has been closely monitoring the usage of the Internet Memorial Service. In order to further promote the usage of the Internet Memorial Service, the FEHD is developing a mobile app to make use of the advanced mobile technology and to serve growing number of mobile device users.

Sustainability in the supply of public niches

New measures to improve sustainability of public niche supply

5.17 Besides encouraging the community to use sustainable forms of interment of ashes, the Government is identifying new measures to improve the sustainability in public niche supply. Regarding this, the FHB has proposed two new measures, i.e. setting a time limit for the occupation of niches, and evening out the traffic impact of columbarium developments.

5.18 In November 2013, in answering the question of a LegCo Member, the Secretary for Food and Health elaborated on the two new measures as follows:

- (a) *Setting a time limit for occupation of niches.* The Government noted that some niches had been left unattended after a certain period of time due to various reasons, such as the migration of the descendants. For efficient use of land resources while taking into account the sentiment of the descendants, the Government was considering, for niches newly allocated, whether a reasonable time limit should be set for occupation. The Government would vacate niches for re-allocation if renewal applications were not received upon the expiry of the time limit. Such a practice was being adopted in Mainland China and Singapore, for ensuring that a sizeable number of niches would remain in circulation and available for sustainable use; and

- (b) *Evening out the traffic impact of columbarium developments.* The number of niches that might be provided at various selected sites (under the District-based Columbarium Development Scheme) was often capped by constraints in terms of the transport and traffic capacity of the road networks near the sites. The Government was considering, for niches newly allocated, whether worship periods should be confined to either the Ching Ming or Chung Yeung Festivals. This would help bring the traffic impact to within an acceptable level, thereby allowing more niches to be built.

5.19 Audit understands that much need to be done for pursuing these new measures, such as collecting the community's views, designing the appropriate arrangements, and conducting some pilot schemes. However, Audit notes that there has been little progress in implementing these new measures. The FHB and the FEHD need to examine the feasibility of these measures.

New source of land supply for columbarium development

5.20 Cavern development is regarded as a new source of land supply. In 2011, the Civil Engineering and Development Department started a study on the potential of rock cavern development as a means to enhance land supply. By relocating suitable government facilities to caverns, the original land could be released for housing and other uses. By putting sensitive facilities (such as sewage treatment

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works and refuse transfer stations) into caverns, impacts on the community would be minimised. The Department also identified some innovative uses for rock cavern developments, including columbaria. Subsequently, some pilot schemes for relocating sewage treatment works into rock caverns were identified for further study. The lack of suitable sites has always been a problem for columbarium development. The FHB and the FEHD should keep in view the progress of the study on rock cavern development.

Audit recommendations

5.21 **Audit has *recommended* that the Secretary for Food and Health and the Director of Food and Environmental Hygiene should:**

- (a) **examine the feasibility of the two new measures for ensuring the sustainability in the supply of public niches, i.e. setting a time limit for occupation of niches, and evening out the traffic impact of columbarium developments; and**
- (b) **keep in view the progress of the study on rock cavern development.**

Response from the Government

5.22 The Secretary for Food and Health and the Director of Food and Environmental Hygiene agree with the audit recommendations.

**Public cemeteries
(June 2015)**

Item no.	Name	No. of coffin burial spaces		No. of urn burial spaces	
		Total	Vacant	Total	Vacant
1	Cheung Chau Cemetery	1,260	639	13,462	1,335
2	Lai Chi Yuen Cemetery	276	132	332	102
3	Tai O Cemetery	420	310	274	171
4	Wo Hop Shek Cemetery	9,469	3,892	112,924	30,548
5	Hong Kong Cemetery (Note 1)	7,063	901	0	0
6	Mount Caroline Cemetery (Note 2)	230	0	0	0
7	Diamond Hill Urn Cemetery (Note 2)	0	0	52,653	0
8	Prison Cemetery (Stanley)	0	0	7	0
9	Sandy Ridge Cemetery (Note 3)	5,010	2,304	0	0
10	Sandy Ridge Urn Cemetery (Note 3)	0	0	37,759	5,896
Total		23,728	8,178	217,411	38,052

Source: FEHD records

Note 1: The burial spaces are not for the general public, but for protestants of non-Chinese origin, non-Chinese of other religions for whom there is no other suitable burial ground, and Chinese of local standing with the personal approval of the Director of Food and Environmental Hygiene.

Note 2: The two cemeteries were declared closed in 1961.

Note 3: The burial spaces are mainly for unclaimed bodies only.

**Public crematoria
(June 2015)**

Item no.	Name	Body cremators (No.)	Annual body cremation capacity (No. of sessions)
1	Cape Collinson Crematorium	4	7,632
2	Cheung Chau Crematorium	2	1,908
3	Diamond Hill Crematorium	6	10,176
4	Fu Shan Crematorium	4	5,724
5	Kwai Chung Crematorium	4	6,996
6	Wo Hop Shek Crematorium (Note)	6	11,448
Total		26	43,884

Source: FEHD records

Note: The Wo Hop Shek Crematorium is also provided with one skeletal cremator.

**Public columbaria
(June 2015)**

Item no.	Name	No. of niches					
		Standard		Large		Overall	
		Total	Available for allocation	Total	Available for allocation	Total	Available for allocation
1	Cape Collinson Columbarium	59,041	27	2,574	1	61,615	28
2	Cheung Chau Columbarium	2,764	585	571	0	3,335	585
3	Diamond Hill Columbarium	55,824	41	7,527	0	63,351	41
4	Fu Shan Columbarium	7,126	2	2,499	1	9,625	3
5	Kwai Chung Columbarium	9,276	3	0	0	9,276	3
6	Lamma Island Columbarium	441	383	49	28	490	411
7	Peng Chau Columbarium	441	107	49	0	490	107
8	Wo Hop Shek Columbarium	63,762	7,926	2,388	11	66,150	7,937
Total		198,675	9,074	15,657	41	214,332	9,115

Source: FEHD records

**Main charges for burial and cremation services
(June 2015)**

Service	Charge (\$)
(a) Burials of bodies and skeletal remains	
(i) Adult burial	3,190
(ii) Child burial	2,605
(iii) Burial of skeletal remains	6,305
(b) Cremations of bodies and skeletal remains	
(i) Adult cremation	1,220
(ii) Child cremation	650
(iii) Cremation of skeletal remains	90
(c) Interment of cremated ashes	
(i) Standard niche	2,800
(ii) Large niche	3,600
(d) Regulation of burial undertakers and funeral parlours	
(i) Annual licence fee for burial undertakers	8,290
(ii) Annual licence fee for funeral parlours	31,060

Source: FEHD records

Remarks: The FEHD provides free service for scattering of ashes at gardens of remembrance or at sea.

Appendix E
(paras. 2.8, 3.5
and 5.13 refer)

The 24 sites identified for public columbarium development

Item no.	District	Project location	Site
1	Eastern	Cape Collinson	A site on Cape Collinson Road, opposite the Chai Wan Chinese Permanent Cemetery Columbarium and next to Wan Tsui Estate Park
2	Wong Tai Sin	Diamond Hill	Diamond Hill Columbarium extension
3	Sha Tin	Shek Mun	A site on On Hing Lane, Shek Mun, next to Shatin Refuse Transfer Station
4	Sha Tin	Fu Shan	Fu Shan Columbarium extension
5	North	Wo Hop Shek	Surplus coffin burial grounds and other land within the Wo Hop Shek Cemetery
6	North	Sandy Ridge	Undeveloped areas within the Sandy Ridge Cemetery
7	Tuen Mun	Tsang Tsui	Part of the Tsang Tsui ash lagoon next to Black Point Power Station
8	Kwai Tsing	Kwai Yu	Ex-Kwai Chung Incineration Plant on Kwai Yu Street
9	Kwai Tsing	Kwai Tai	A site on Kwai Tai Road, southeast of ex-Kwai Chung Incineration Plant
10	Kwai Tsing	Tsing Tsuen	A site on Tsing Tsuen Road near the Tsuen Wan Chinese Permanent Cemetery
11	Islands	Cheung Chau	Cheung Chau Cemetery extension
12	Islands	Mui Wo	Mui Wo Lai Chi Yuen Cemetery extension
13	Central and Western	Mount Davis	A site at Mount Davis Road, east of Chiu Yuen Cemetery

Appendix E
(Cont'd)
(paras. 2.8, 3.5
and 5.13 refer)

Item No.	District	Project location	Site
14	Wan Chai	Wong Nai Chung	FEHD's Hong Kong Cemeteries and Crematoria Office (part thereof) at Wong Nai Chung Road
15	Shum Shui Po	Ching Cheung	A site north of Ching Cheung Road near the Roman Catholic Cemetery
16	Kwun Tong	Ma Yau Tong	A site next to the Ex-Ma Yau Tong Central Landfill Site
17	Yau Tsim Mong	Tin Hau Temple	Former school within Tin Hau Temple on Temple Street
18	Southern	Pok Fu Lam	A site adjoining the Chinese Christian Cemetery at Pok Fu Lam
19	Kowloon City	Cheong Hang	A vacant staff quarters (part thereof) inside a funeral parlour at 6 Cheong Hang Road, Hung Hom
20	Tsuen Wan	Sham Shui Kok East	A site located at the eastern end of Sham Shui Kok Drive, Siu Ho Wan, North Lantau
21	Tsuen Wan	Sham Shui Kok West	A site located at the western end of Sham Shui Kok Drive, Siu Ho Wan, North Lantau
22	Yuen Long	San Tin	A site between San Tam Road and Mai Po Lung Road, San Tin
23	Tai Po	Shuen Wan	A site at the southwestern corner of the Shuen Wan Ex-Landfill, near Tai Po Industrial Estate
24	Sai Kung	Tsueng Kwan O	A site at Area 132, Tsueng Kwan O, near the Tseung Kwan O Chinese Permanent Cemetery

Source: FEHD records

Appendix F
(paras. 2.19 and
2.23 refer)

Recently completed columbarium projects

Year of completion	Project location (Note 1)	Approved project cost (a) (\$ million)	No. of niches (b)	Niche unit cost (c) = (a)/(b) (\$)
2006	Cape Collinson	5.5	2,088	2,634
2006	Kwai Chung	6.5	2,394	2,715
2006	Wo Hop Shek	4.4	2,520	1,746
2007	Cheung Chau	2.8	1,026	2,729
2008	Kwai Chung (Extension)	14.8	3,374	4,386
2009	Diamond Hill	113.6	18,501	6,140
2012	Diamond Hill (Extension) (Note 2)	0.5	1,540	325
2012	Wo Hop Shek Kiu Tau Road	629.5	43,710	14,402
2013	Cheung Chau (Extension) (Note 2)	2.7	1,000	2,700
Overall		780.3	76,153	10,246

Source: FEHD records

Note 1: The individual projects involved works of different nature, scope and complexity, including development of new facilities, alteration and addition to existing facilities, construction of outdoor open niche walls, and provision of gardens of remembrance.

Note 2: Diamond Hill (Extension) Project and Cheung Chau (Extension) Project were part of the District-based Columbarium Development Scheme.

Acronyms and abbreviations

Audit	Audit Commission
BMCPC	Board of Management of the Chinese Permanent Cemeteries
DC	District Council
FEHD	Food and Environmental Hygiene Department
FHB	Food and Health Bureau
LegCo	Legislative Council
LegCo Panel	LegCo Panel on Food Safety and Environmental Hygiene
PHMSO	Public Health and Municipal Services Ordinance
TIA	Traffic impact assessment

CHAPTER 5

Hongkong Post

Operation of the Hongkong Post

**Audit Commission
Hong Kong
27 October 2015**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 65 of the Director of Audit contains 10 Chapters which are available on our website at <http://www.aud.gov.hk>

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OPERATION OF THE HONGKONG POST

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OPERATION OF THE HONGKONG POST

Executive Summary

1. The Hongkong Post (HKP) aims to meet Hong Kong's postal needs and fulfil Hong Kong's international postal obligations by providing reliable, efficient and universal postal services at reasonable and affordable prices. In August 1995, a Post Office Trading Fund (POTF) was established to manage and account for the operation of the HKP. As at 31 March 2015, the HKP had 7,032 staff, comprising 5,090 civil servants and 1,942 non-civil-service contract staff. Its postal facilities include two mail processing centres (Air Mail Centre (AMC) and Central Mail Centre (CMC)), 127 post offices, 28 delivery offices (DOs), some 1,100 street posting boxes and some 270 departmental vehicles. In 2014-15, the HKP handled 1,212 million mail items comprising 1,038 million (86%) local mail items and 174 million (14%) international mail items.

2. For the 20-year period from the inception of the POTF in 1995-96 to 2014-15, the HKP recorded operating loss in eight years and did not achieve the target rate of return on fixed assets in 14 years. For 2014-15, the HKP recorded a turnover of \$5,344 million and operating costs of \$5,175 million, i.e. an operating profit of \$169 million and a rate of return on fixed assets of 4.9% (target: 5.9%). The Audit Commission (Audit) has recently conducted a review on the operation of the HKP.

Management of mail processing

3. *Underpayment of postage.* According to the HKP, the risk of underpayment was lower for 88% of locally posted mail items which were prepaid or paid by permit/meter/postage label. The remaining 12% of locally posted mail items were paid by stamps (about 400,000 per day). Measures used by the HKP to prevent or detect underpayment of postage include educating and reminding the public to pay correct postage, conducting sample checks on mail items and putting in place a surcharge mechanism. Audit conducted three different tests to assess the effectiveness of the HKP's measures in preventing or detecting underpayment of postage: (a) Audit sent out 50 local test letters with no or insufficient postage stamps in mid-June to mid-July 2015 to ascertain whether letters with no or insufficient

Executive Summary

postage could pass through the HKP's detection mechanism without being intercepted. Audit found that 43 letters (86%) successfully passed through the HKP's detection mechanism and were delivered to the addressees without being surcharged; (b) Audit also selected and tested 546 mail items that in appearance did not have sufficient postage, to ascertain the effectiveness of the HKP's sample weight checks of mail items, and found that for 263 mail items (48.2% of 546) postage was underpaid. The underpayment was \$459.9 representing 39.4% of the correct postage required for the 263 underpaid items; and (c) for 1,190 mail items selected randomly by Audit from locally posted items paid by stamps collected from 11 street posting boxes, 97 items (8.2%) were underpaid. The amount of postage underpaid was \$99.2, representing 29.8% of the correct postage required for the 97 underpaid items and 3.5% of the correct postage required for the 1,190 items (paras. 2.4 to 2.6 and 2.9 to 2.13).

4. ***Procurement of airfreight services.*** The HKP conducts annual procurement of airfreight services for its Speedpost and airmail. The estimated contract value for the 2014-15 tender exercise was \$824.7 million. According to the Government's Stores and Procurement Regulations, for non-works service contract of a value exceeding \$5 million, financial vetting should be conducted on the tenderer. The HKP stated in the tender document that if a tenderer failed the financial vetting and the estimated value of the contract was over \$5 million, the HKP may require the selected tenderer to submit a deposit equivalent to 0.5% of the estimated contract value. Audit noted that the HKP did not require the tenderers who failed the financial vetting and whose estimated contract value exceeded \$5 million to submit a contract deposit. The HKP informed the Central Tender Board that: (a) the tenderers had been financially vetted and were considered financially capable of undertaking the contracts; and (b) the tenderers had passed the financial vetting and no contract deposit was required (paras. 2.18 and 2.20 to 2.24).

5. ***Control and administration of overtime.*** The Civil Service Regulations (CSRs) have laid down strict controls on overtime work, including overtime work performed should normally be compensated by time-off in lieu (TOIL) and where TOIL is impracticable, an overtime allowance (OTA) may be paid. Overtime hours worked by HKP staff had long been mainly compensated by OTA rather than compensated by TOIL. For 2014-15, the number of overtime hours was 1,362,941, of which 1,115,234 hours (81.8%) were compensated by OTA (\$179 million). OTA represented, on average, 15.4% of the salaries of some 4,200 civil servants who were paid OTA (paras. 2.32, 2.34 and 2.35).

Executive Summary

6. ***Overtime of Mail Distribution Division.*** The Mail Distribution Division (MDD) of the Postal Services Branch is mainly responsible for the delivery of mail items to different delivery points in Hong Kong. As at 31 March 2015, there were 1,756 delivery beats under the MDD. In 2014-15, overtime hours worked by staff of the MDD and compensated by OTA were 534,790 hours, representing 48% of that of all staff of the HKP. For every delivery beat, the HKP has devised standard workload of the delivery postman and the standard time for processing and delivery of different types of mail items. Audit noted that: (a) there was no comprehensive review on the standard time for processing and delivering different mail items since March 2008; and (b) there were substantial delays in carrying out beat revision exercises (paras. 2.41, 2.42, 2.44, 2.48 and 2.50).

7. ***Monitoring of staff regularly working long overtime.*** Audit identified, for each year in the period 2010-11 to 2014-15, 50 staff (30 Postman grade staff and 20 Postal Officer grade staff) of the Postal Services Branch who had worked the largest number of overtime hours in that year and analysed their overtime hours. Audit found that: (a) many staff worked overtime on a regular basis; (b) some staff of the AMC had worked significant amount of overtime, including 14 staff who worked some 990 to 1,440 hours of overtime (average 1,115 hours) each year (1,084 hours compensated by OTA and 31 hours by TOIL); and (c) contrary to Civil Service Bureau circular, some staff were not required to exhaust TOIL before taking vacation leave (paras. 2.57, 2.59 and 2.62).

Management of post offices

8. ***Performance of post offices.*** As at 30 September 2015, there were 124 post offices and 3 mobile post offices to provide various postal and non-postal services (e.g. PayThruPost service). Audit noted that in 2014-15, 103 (81%) of the 127 post offices recorded loss, ranging from \$350,000 to \$5.2 million. Moreover, 84 (66%) post offices made loss in all the five years from 2010-11 to 2014-15. Audit noted that some post offices were located within walking distance from another post office. The HKP needs to make continuous efforts to rationalise its post office network, including closely monitoring the performance of post offices (paras. 3.2 to 3.4, 3.10 and 3.11).

Executive Summary

9. ***Provision of mobile post offices.*** The HKP has used mobile post office since 1960 to provide postal services to residents in remote and scattered villages. In discharge of the Government's universal postal service obligation, the HKP operates these mobile post offices to complement its network of post offices and street posting boxes. Two of the three mobile post offices serve various districts in the New Territories. Audit accompanied each of these mobile post offices on two days in August and September 2015 and noted that the number of customers and items handled for the service points were small. On average, each mobile post office served 11.5 customers and handled 12.5 items per day. For some service points, there were no customers. The two mobile post offices had been operating at an annual loss of more than \$1 million each (paras. 3.14 and 3.16).

Management of postal vehicles

10. As at 31 March 2015, the HKP had a vehicle fleet of 277 vehicles. It also hired some 350 vehicles of different types such as light goods vehicles and trucks to supplement its own fleet. In 2014-15, some 912,000 vehicle hours were used for transportation of mail items, involving expenditure of \$159 million (paras. 4.2 and 4.3).

11. ***Management of hired vehicles.*** Competition is a reliable safeguard against bidders overcharging and helps secure value for money in government procurement. As at 31 March 2015, there were 16 hired vehicle contracts, of which 15 contracts were awarded to three contractors. Similarly, for the preceding 16 contracts (commenced in the period December 2010 to August 2013), 13 contracts were awarded to two contractors. Audit examination of the tendering records indicated that in the tendering exercises conducted in 2013 to 2015, there were only a limited number of tenderers. In 2013 and 2014, the Independent Commission Against Corruption and the Government Logistics Department Tender Board respectively expressed concern on the small number of bidders (paras. 4.22 to 4.24 and 4.27).

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Management of Central Mail Centre and General Post Office Building

12. *CMC.* The CMC is an integrated mail sorting centre which houses the International Mail Centre previously located in Hung Hom and the sorting centre previously located at the General Post Office (GPO) Building. It has been in full operation since November 2014. Audit's site inspection in July 2015 revealed that some 300 square metres on the fifth floor of the CMC was not in use (involving 46 work stations) (paras. 5.2, 5.3, 5.9 and 5.10).

13. *Reprovision of GPO Building.* The GPO Building is located at Connaught Place, Central. It is an eight-storey building providing accommodations for the GPO (counters, post office boxes and DO), and HKP's Headquarters and various divisions. The Government started planning for the relocation of the GPO Building as early as in May 1985 after the expiry of a lease condition that restricted the height of the GPO site. In the Director of Audit's Report No. 31 of October 1998, Audit reported on the Government's slow progress in the redevelopment of the GPO site. In the 2014 Policy Address, the Government announced that it would launch the development of Site 3 (at which the GPO Building was located) under the Urban Design Study for the New Central Harbourfront. Some 30 years have lapsed since the Government started planning for the relocation of the GPO Building and the GPO site has yet to be redeveloped (paras. 5.15 to 5.18).

Audit recommendations

14. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Postmaster General should:**

Management of mail processing

- (a) **conduct a review on the HKP's measures in detecting mail items with underpaid postage (para. 2.15(a));**

Executive Summary

- (b) provide accurate information to the Central Tender Board on the results of the HKP's financial vetting and the justifications for waiving the contract deposits (para. 2.29(b));
- (c) monitor closely the overtime work by HKP staff to ensure compliance with the relevant CSRs and Civil Service Bureau circular, and ensure that senior management's endorsement is obtained in exceptional circumstances where non-compliance is justified (para. 2.39(a));
- (d) consider carrying out a comprehensive review of the standard time for processing and delivering different types of mail items (para. 2.55(a));
- (e) ensure that beat revision exercises are carried out in a timely manner according to the prescribed schedule (para. 2.55(b));
- (f) review the operation and workload of different sections at the AMC with a view to rationalising their workload and reducing the need for overtime work (para. 2.66(a));
- (g) remind frontline supervisors to strictly follow the relevant regulations in the granting of TOIL (para. 2.66(d)(i));

Management of post offices

- (h) conduct regular reviews on the performance of post offices and make efforts to improve their performance, taking into account the demand for postal services, financial viability and manpower utilisation of individual post offices (para. 3.12(a));
- (i) review the existing routes of the two mobile post offices serving the New Territories taking into account the service points' mail traffic and their proximity to nearby postal facilities (para. 3.18(a));

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Management of postal vehicles

- (j) **closely monitor the utilisation of the HKP's vehicles (particularly those with low utilisation rates) and take effective actions to optimise their usage (para. 4.18(c));**
- (k) **closely monitor the extent of competition in the HKP's procurement of hired vehicles, and where necessary, take effective action to promote competition including further relaxing tender requirements or splitting contracts (para. 4.29(a));**

Management of CMC and GPO Building

- (l) **monitor the usage of work stations at the office area of the CMC to avoid prolonged vacancy (para. 5.13(b)); and**
- (m) **in collaboration with the relevant government bureaux/departments, take appropriate measures to facilitate the Government's project for the reprovisioning of the GPO Building (para. 5.20(a)).**

Response from the Government

15. The Postmaster General agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 The Hongkong Post (HKP) aims to meet Hong Kong's postal needs and fulfil Hong Kong's international postal obligations by providing reliable, efficient and universal postal services at reasonable and affordable prices. The HKP operates under the Post Office Ordinance (Cap. 98) and the Post Office Regulations (Cap. 98A). It is headed by the Postmaster General. The Commerce and Economic Development Bureau oversees the operation of the HKP (see para. 1.6).

Post Office Trading Fund

1.3 A Post Office Trading Fund (POTF) was established by a Resolution of the Legislative Council passed on 19 July 1995 under the Trading Funds Ordinance (Cap. 430) to manage and account for the operation of the HKP with effect from 1 August 1995. The POTF was financed by an initial capital injection of \$2,101 million from the Government and a shareholder loan of \$900.4 million from the Capital Investment Fund (Note 1). The loan was fully repaid in 2005.

1.4 As a trading fund, the HKP can retain the revenue generated from its business to cover the cost of service provision on a self-financing basis. According to the Trading Funds Ordinance, the general manager of a trading fund is required to manage the trading fund with the objectives of:

Note 1: *On 1 April 1990, the Legislative Council established the Capital Investment Fund by Resolution for the purpose of financing investments in the Mass Transit Railway Corporation (which became MTR Corporation Limited on 30 June 2000), the Kowloon-Canton Railway Corporation, the Hong Kong Housing Authority, the New Hong Kong Tunnel Company Limited and such other bodies as the Finance Committee of the Legislative Council may specify.*

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- (a) providing an efficient and effective operation that meets an appropriate standard of service;
- (b) meeting expenses incurred in the provision of the service and financing liabilities of the trading fund out of the income of the trading fund; and
- (c) achieving a reasonable return, as determined by the Financial Secretary, on the fixed assets employed.

1.5 The Postmaster General is the General Manager of the POTF. A Framework Agreement, which governs the relationship between the Secretary for Commerce and Economic Development and the Postmaster General (as the head of the HKP and the General Manager of POTF), came into effect on 1 August 1995. The Framework Agreement sets out the responsibilities of the Secretary and the Postmaster General, and the aims, functions and objectives, services and organisation, and the financial planning and control of the HKP.

1.6 According to the Framework Agreement:

- (a) the Secretary for Commerce and Economic Development is responsible for, inter alia:
 - (i) formulating and reviewing Government's policies and aims for postal services (see para. 1.2); and
 - (ii) setting performance targets (Note 2) for the HKP in consultation with the Postmaster General; and

Note 2: *The HKP's performance targets can be found on the HKP website. Examples of the targets included "deliver locally posted letters to local addressees by the following working day" and "deliver inward airmail items within 2 working days after arrival in Hong Kong". In 2014-15, the HKP met all its performance targets.*

- (b) the Postmaster General is responsible to the Secretary for Commerce and Economic Development for, inter alia:
 - (i) managing and operating the business of the HKP and achieving the performance targets of the HKP; and
 - (ii) advising the Secretary for Commerce and Economic Development on policy, legislative and operational matters relating to the business of the HKP.

Staff strength

1.7 The HKP is organised into three functional branches and a number of supporting units. An organisation chart of the HKP is at Appendix A. As at 31 March 2015, the 7,032 staff of the HKP comprised 5,090 civil servants (72%) and 1,942 non-civil-service contract (NCSC) staff (28%) (Note 3).

Postal facilities

1.8 As at 31 March 2015, the HKP's main postal facilities for providing postal services included:

- (a) two mail processing centres (the Central Mail Centre (CMC) at Kowloon Bay and the Air Mail Centre (AMC) at Chek Lap Kok), one Bulk Air Mail Centre at Tsuen Wan and one Surface Mail Centre at Tuen Mun;
- (b) 124 post offices (including the General Post Office (GPO) at Central) and three mobile post offices;

Note 3: *NCSC staff included full-time staff (remunerated on a monthly basis) and part-time staff (remunerated on a daily-rate basis or an hourly-rate basis). According to the HKP, NCSC staff are employed mainly: (a) to meet service needs that require staff to work less than the conditioned hours required of civil servants; (b) to meet service needs that are subject to market fluctuation; and (c) to tap the expertise in the market that is not readily available in the civil service.*

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- (c) 28 delivery offices (DOs) for delivering mail;
- (d) some 1,100 street posting boxes;
- (e) some 1,600 second pouch boxes for temporary storage of mail before delivery by postmen; and
- (f) a fleet of some 270 departmental vehicles.

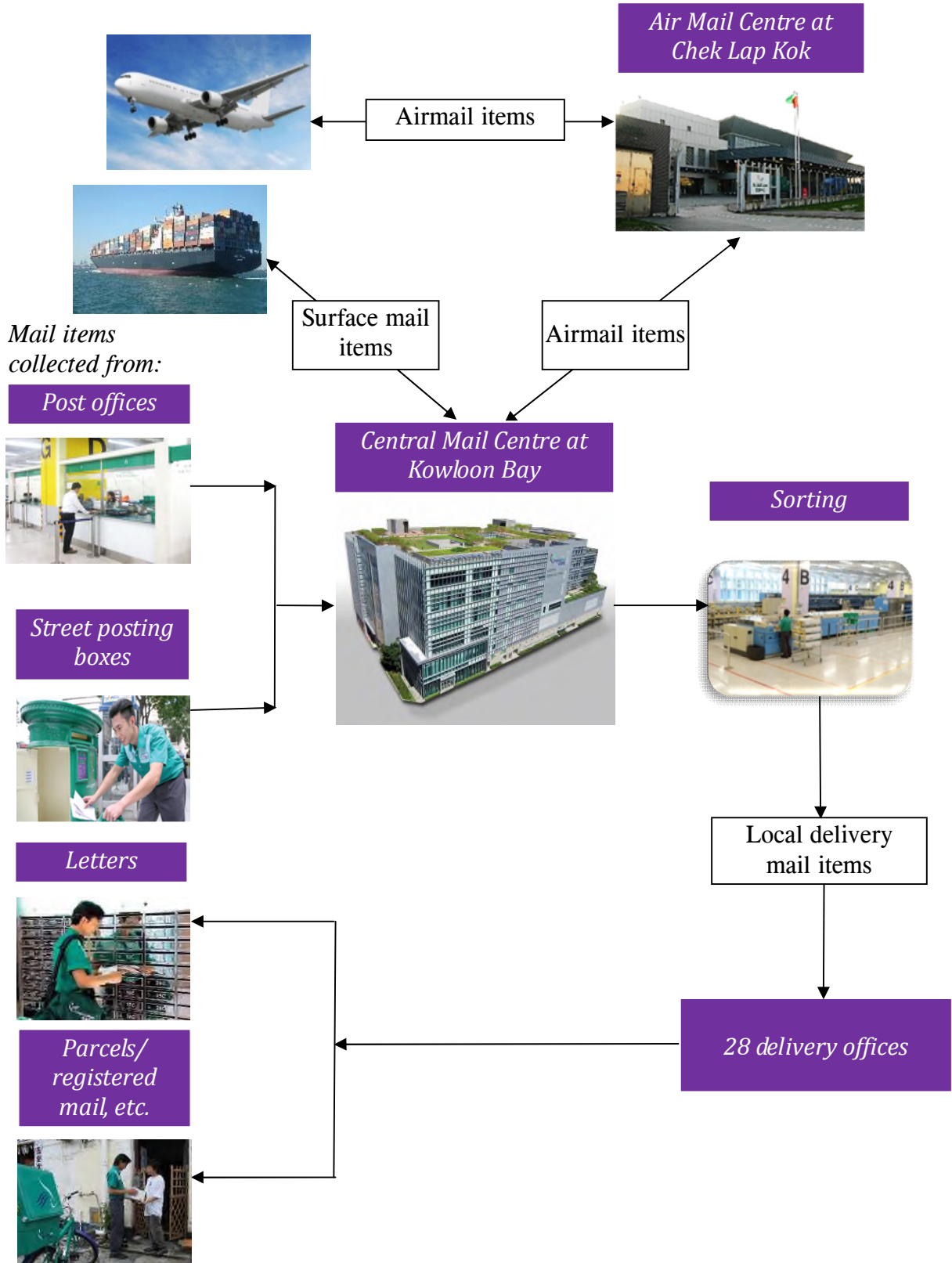
Overview of mail processing and delivery

1.9 In general, mail collected from post offices and street post boxes is centralised at the CMC for sorting either mechanically or manually. After sorting, local mail is sent to the 28 DOs for delivery by postmen whereas international mail is sent to the respective centres (e.g. airmail items to the AMC) for delivery to destinations outside Hong Kong. Inward mail is sorted at the CMC for local delivery (Note 4). Figure 1 shows a general overview of the mail flow.

Note 4: *The HKP receives from, and pays to, other postal administrations terminal dues and charges for the delivery of inward mail and processing of outward mail respectively.*

Figure 1

General overview of mail processing and delivery



Source: Audit analysis of HKP records

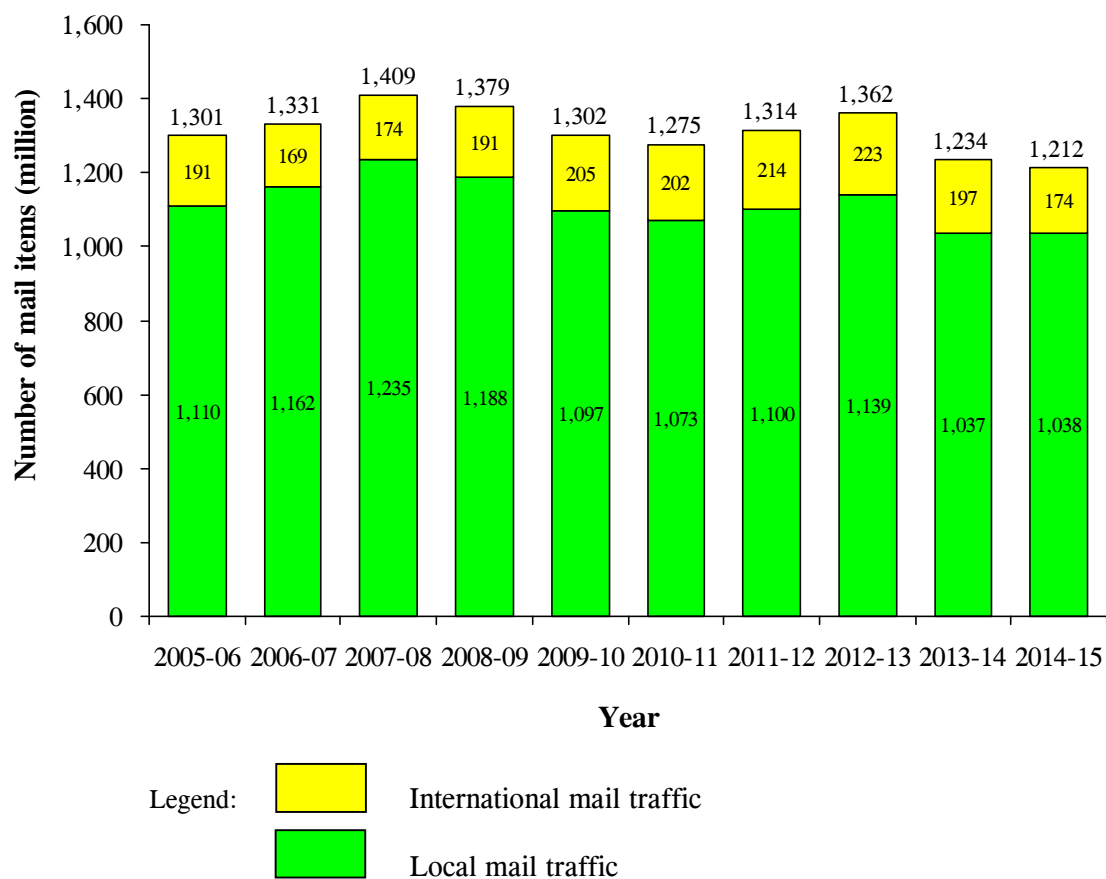
Introduction

Mail traffic of HKP

1.10 In 2014-15, the HKP handled 1,212 million mail items comprising 1,038 million (86%) local mail items and 174 million (14%) international mail items. The mail traffic for the period 2005-06 to 2014-15 is shown in Figure 2.

Figure 2

**HKP's mail traffic
(2005-06 to 2014-15)**



Source: HKP records

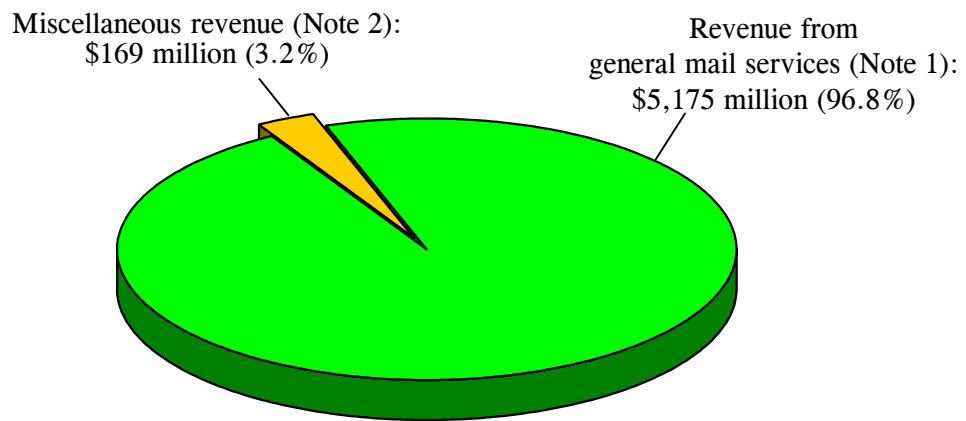
Turnover and operating costs

1.11 Figure 3 shows the details of the turnover and operating costs of the HKP for 2014-15.

Figure 3

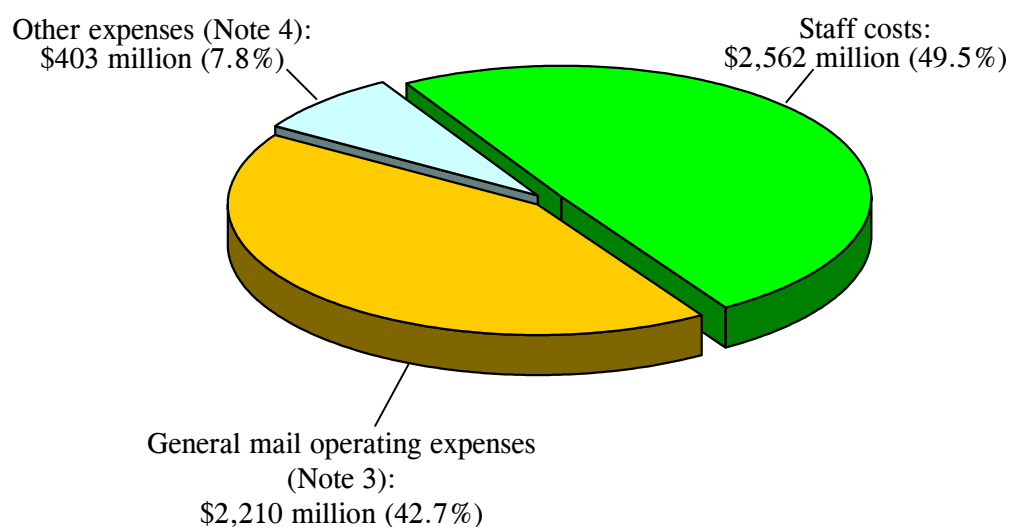
**Turnover and operating costs of HKP
(2014-15)**

Turnover: \$5,344 million



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Operating costs: \$5,175 million



Source: HKP records

Note 1: Revenue from general mail services includes mainly revenue from local mail and international mail, recoveries from other postal administrations for the provision of processing and delivery services for mail (e.g. letters and parcels) to Hong Kong and philately revenue.

Note 2: Miscellaneous revenue includes, for example, income from PayThruPost (for settlement of government and other bills) and post office box rental service.

Note 3: General mail operating expenses include: (a) terminal dues which are levies charged on the HKP by other postal administrations for mail from Hong Kong; (b) conveyance costs which are mainly payments for airfreight services and sea/land transportation for the conveyance of outward mail items to destinations outside Hong Kong; and (c) other operating expenses such as electricity and water charges.

Note 4: Other expenses include rental and management charges, depreciation and amortisation, and administration overheads.

Profits and losses

1.12 The HKP recorded operating loss in 8 of the last 20 years (i.e. from the inception of the POTF in 1995-96 to 2014-15). Table 1 shows the financial results of HKP for the period 2010-11 to 2014-15:

- (a) the operating profits/losses; and
- (b) the profits after deduction of notional profits tax.

Table 1

**Profits and losses of HKP
(2010-11 to 2014-15)**

Item	2010-11	2011-12	2012-13	2013-14	2014-15
	(\$ million)				
Turnover (a)	4,721	5,014	5,176	5,249	5,344
Operating costs (b)	4,585	5,064	5,290	5,252	5,175
Operating profit/(loss) (c) = (a) – (b)	136	(50)	(114)	(3)	169
Other income (Note 1) (d)	89	134	126	140	106
Profit before tax (e) = (c) + (d)	225	84	12	137	275
Profits tax (notional) (Note 2) (f)	32	11	2	20	50
Profit for the year (g) = (e) – (f)	193	73	10	117	225

Source: HKP records

Note 1: Other income mainly consisted of interest income generated from placement with the Exchange Fund and from financial assets (such as held-to-maturity securities, structured notes and deposits) and bank deposits.

Note 2: The POTF has no tax liability under the Inland Revenue Ordinance (Cap. 112). However, the Government requires the POTF to pay to the General Revenue an amount in lieu of profits tax (i.e. notional profits tax) calculated on the basis of the provisions of the Inland Revenue Ordinance. Notional profits tax expense for the year comprises current tax and movements in deferred tax assets and liabilities.

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Rate of return on fixed assets

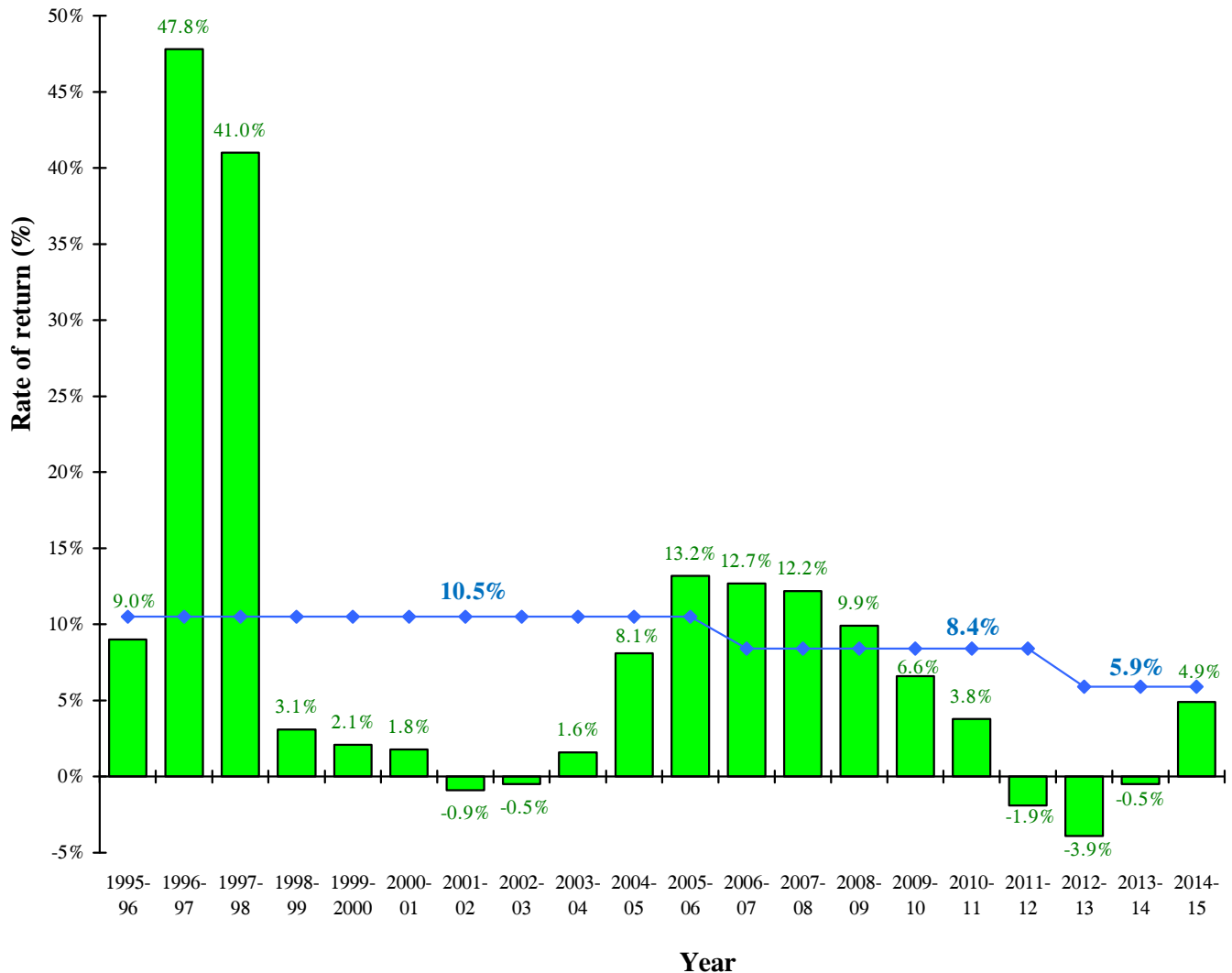
1.13 Under the Trading Funds Ordinance, the HKP is required to achieve an annual rate of return on fixed assets (Note 5) as determined by the Financial Secretary (see para. 1.4(c)). The rate of return is defined as the HKP's operating profit after tax (excluding other income) divided by its average net fixed assets (i.e. the average of the net fixed assets at the beginning and at the end of the financial year). In the period 1995-96 to 2005-06, the target rate of return on fixed assets was 10.5% and in the period 2006-07 to 2011-12, the rate was 8.4% (see para. 1.4(c)). Since 2012-13, the rate has been set at 5.9%.

1.14 Figure 4 shows the HKP's target and actual rates of return on fixed assets for the 20-year period 1995-96 to 2014-15. The HKP did not achieve the target rates of return in 14 years of the 20-year period.

Note 5: *Fixed assets include property (e.g. land and buildings), plant and equipment and intangible assets (e.g. computer software licenses).*

Figure 4

HKP's target and actual rates of return on fixed assets
(1995-96 to 2014-15)



Legend: ■ Actual rate of return
◆ Target rate of return

Source: HKP records

Remarks: The upsurge of actual rates of return in 1996-97 and 1997-98 was mainly attributable to the better than expected sales of stamps in the period around the establishment of the Hong Kong Special Administrative Region on 1 July 1997.

Introduction

Audit review

1.15 In April 2015, the Audit Commission (Audit) commenced a review to examine the operation of the HKP. The review has focused on the following areas:

- (a) management of mail processing (PART 2);
- (b) management of post offices (PART 3);
- (c) management of postal vehicles (PART 4); and
- (d) management of CMC and GPO Building (PART 5).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

Acknowledgement

1.16 Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the HKP during the course of the audit review.

PART 2: MANAGEMENT OF MAIL PROCESSING

2.1 This PART examines the HKP's management of mail processing, focusing on the following issues:

- (a) underpayment of postage (paras. 2.4 to 2.16);
- (b) procurement of airfreight services (paras. 2.17 to 2.30);
- (c) control and administration of overtime (paras. 2.31 to 2.40);
- (d) overtime of Mail Distribution Division (paras. 2.41 to 2.56); and
- (e) monitoring of staff regularly working long overtime (paras. 2.57 to 2.67).

Background

2.2 In general, mail processing involves the following operations (see Figure 1 in para. 1.9):

- (a) locally posted mail is received at HKP's counters (e.g. post office counters) or collected from posting boxes, and inward mail is received at the AMC (for airmail) and the Surface Mail Centre (for surface mail); and
- (b) all collected mail will be centrally processed at the CMC. Mail with local addresses will be sent to the DOs for delivery by postmen serving the respective beats. Outward mail is delivered to destinations outside Hong Kong (e.g. airmail will be sent to the AMC for airfreight services).

Management of mail processing

2.3 In 2014-15, the HKP handled 1,212 million mail items, comprising 1,038 million (86%) local mail items and 174 million (14%) international mail items (see Appendix B). The mail items handled by the HKP include:

- (a) ***Letter mail services.*** These are ordinary mail and bulk mail posted for delivery within or outside Hong Kong (including packet of weight below 2 kilograms);
- (b) ***Parcel services.*** Parcel services for delivery within or outside Hong Kong are available. Parcels are sent by air or surface to some 230 countries/regions;
- (c) ***Speedpost service.*** Speedpost is the HKP's international courier service, and is the local brand name of the global Express Mail Service of the Universal Postal Union. Delivery is available to over 210 countries/regions;
- (d) ***Local CourierPost.*** This service caters for both individual and business needs for local express delivery of documents and packages. Items can be posted at all post offices throughout the territory;
- (e) ***Periodicals service.*** This service, which caters for information-oriented periodicals such as magazines, journals and research papers of general interests, provides low postage rates for both local mailing and mailing outside Hong Kong; and
- (f) ***Circular service.*** This service provides low postage rates for local distribution of unaddressed promotional materials (e.g. leaflets) to residential and commercial addresses by geographical areas. The HKP also offers a one-stop design and printing services.

Underpayment of postage

Measures to deter underpayment of postage

2.4 The HKP handles some 3 million mail items each day. Locally posted mail is posted either by handing in at HKP's counters or putting into posting boxes for collection by the HKP. Postage is based on the weight of the mail item. For mail handed in at HKP's counters, the amounts of the postage required are usually checked on the spot by HKP staff. Furthermore, according to the HKP, some 88% of locally posted mail items were prepaid or paid by permit/meter/postage label of which postage stamps are not required. Therefore, the risk of underpaid postage by these senders is lower. However, for mail placed directly into posting boxes, there is a risk that the senders may not have affixed postage stamps of the correct amount on the mail. The HKP relies very much on the senders, particularly individuals who use postage stamps, to pay correct postage when posting mail.

2.5 According to the HKP, it was mindful of the need to protect revenue, including the need to tackle underpayment of postage. The HKP took into account the risk of revenue loss as well as the practicability and administrative costs involved, with greater effort being placed on "Flats/Packets" (Note 6). As some 88% of the locally posted mail items were prepaid or paid by permit/meter/postage label, only 12% locally posted mail items were paid by stamps (about 400,000 per day). The majority of these were small letters and underpayment of postage could be detected by the Culler-Facer-Canceller, which culled mail items and cancelled postage stamps on letters, during processing for subsequent checking and stamp-cancelling by HKP staff. For small letters, it was more difficult to detect small differences in their weight without using scales. It was also more resource-intensive and the amount of underpaid postage recovered was comparatively small. Effort was therefore concentrated on checking large letters and packets (about 70,000 items per day) which were more susceptible to underpayment of postage and the amount of underpaid postage tended to be higher because of the higher postage involved. Some 1,100 mail items were detected to have insufficient postages every day (see para. 2.14).

Note 6: *A flat item is a larger size letter (measuring from 120 millimetres × 235 millimetres to 229 millimetres × 334 millimetres) with weight not exceeding 0.5 kilogram.*

Management of mail processing

2.6 The HKP has the following measures in place to prevent or detect underpayment of postage:

- (a) incorporating security features on postage stamps and mail labels to prevent counterfeit;
- (b) educating and reminding the public to pay correct postage;
- (c) testing the scales used in post offices on a weekly basis;
- (d) conducting checks on mail items at post offices and at mail processing centres (e.g. AMC and CMC) on a sample basis; and
- (e) putting in place a surcharge mechanism to recover the deficiency in postage plus a surcharge or handling fee (Note 7).

Audit conducted three different tests to assess the effectiveness of the HKP's measures in preventing or detecting underpayment of postage (see paras. 2.7 to 2.13).

Mail items with insufficient postage paid by postage stamp not always detected

2.7 Each day when local and international mail items (letters and packets) posted at posting boxes on the streets (street posting boxes) and posting boxes located at post offices (post office posting boxes) are collected for central processing at the CMC, the CMC's frontline staff and Senior Postal Officers conduct snap checks and superior checks (hereinafter collectively referred to as control checks) respectively to detect underpaid postage by weighing the mail items. For the frontline staff, the HKP's Departmental Rules do not specify how many mail items they need to check. For the Senior Postal Officers, they need to check 70 mail items. The Rules do not specify how the frontline staff and the Senior Postal Officers should select mail items for their checks. The CMC only maintains records on the mail items that were found underpaid. It does not keep records on how many mail items were selected for control checks.

Note 7: *Under Regulation 9 of the Post Office Regulations, a surcharge equivalent to double the postage deficiency is payable for local mail, and a fee of \$4 in addition to the postage deficiency is payable for mail sent from a place outside Hong Kong.*

2.8 After undergoing the control checks and mail sorting at the CMC, local mail items are despatched to DOs for local delivery while airmail items are forwarded to the AMC for delivery outside Hong Kong (see Figure 1 in para. 1.9).

2.9 In mid-June to mid-July 2015, Audit sent out four rounds of test mail comprising 13 local letters with no stamps and 37 local letters with insufficient postage stamps to 16 addressees (five on Hong Kong Island, five in Kowloon and six in the New Territories). The purpose of the test mail was to ascertain whether letters with no or insufficient postage could pass through the HKP's detection mechanism without being intercepted. Of these 50 test letters (Note 8):

- (a) 43 (86%) test letters (including 12 of the 13 test letters without postage stamps) successfully passed through the detection mechanism and were delivered to the addressees without being surcharged; and
- (b) 7 (14%) test letters were intercepted by the HKP and were surcharged.

Underpayment of postage detected by Audit's weighing tests

2.10 Audit conducted two weighing tests (one risk-based and the other random-based) to determine the weight of mail items vis-à-vis the postage paid at the CMC.

2.11 ***Risk-based weighing test.*** To ascertain the effectiveness of the HKP's sample checks of mail items, on 17 July 2015, Audit conducted a risk-based weighing test by selecting:

- (a) 441 mail items that in appearance did not have sufficient postage, before the mail items had been subjected to the CMC's control checks; and
- (b) 105 mail items that in appearance did not have sufficient postage, after the mail items had been subjected to the CMC's control checks.

The results of Audit's risk-based weighing test of these 546 (441 + 105) mail items are shown in Table 2.

Note 8: *The postage required for delivery of the 50 local letters totalled \$145.6 and the amounts underpaid totalled \$64.1, representing 44% of the postage required.*

Management of mail processing

Table 2

Risk-based weighing test conducted by Audit at CMC

Letter			Packet		
No. of items tested	No. of items underpaid	Amount underpaid (\$)	No. of items tested	No. of items underpaid	Amount underpaid (\$)
Before CMC control checks					
196	108 (55.1%)	230.1 (42.2% of correct postage of 108 items)	245	122 (49.8%)	189.9 (37.2% of correct postage of 122 items)
After CMC control checks					
64	31 (48.4%)	34.9 (36.7% of correct postage of 31 items)	41	2 (4.9%)	5.0 (33.6% of correct postage of 2 items)

Source: Audit testing on 17 July 2015

2.12 As shown in Table 2, Audit found that for 263 (108+122+31+2) mail items (48.2% of 546) postage were underpaid. The total underpayment was \$459.9 representing 39.4% of the correct postage required for the 263 underpaid items. Even after the CMC's control checks, 31 letters (48.4% of 64) and 2 packets (4.9% of 41) were found by Audit to have underpaid their postage.

2.13 **Random-based weighing test.** On 29 July and 5 August 2015, Audit randomly selected 1,190 locally posted mail items (paid by stamps) collected from 11 street posting boxes and conducted random-based weighing test (the mail items had not been subjected to the CMC's control checks). Audit found 97 (8.2%) mail items underpaid. The correct postage required for these 97 items was \$333.1. The actual postage paid was \$233.9 and the postage underpaid was \$99.2. The amount of postage underpaid represented 29.8% of the correct postage required for the 97 underpaid items and 3.5% of the correct postage of \$2,798.9 for the 1,190 items.

2.14 Since June 2015, as part of the post-implementation review of the Integrated Postal Services System (Note 9), HKP has stepped up the extent of control checks of mail items at 28 DOs, the CMC and the AMC. In this regard, Audit noted that the number of underpaid items spotted at the CMC had substantially increased from some 1,100 per day (average for the period January to May 2015) to some 2,500 and 3,100 in June and July 2015 respectively.

Audit recommendations

2.15 **Audit has recommended that the Postmaster General should:**

- (a) **conduct a review on the HKP's measures in detecting mail items with underpaid postage;**
- (b) **in the light of the results of the review, enhance the HKP's control mechanism in detecting underpaid mail items, including:**
 - (i) **reminding frontline staff to be more vigilant in identifying underpaid mail items;**
 - (ii) **laying down requirement on the number of mail items that should be checked by the frontline staff;**
 - (iii) **maintaining statistics on the extent of underpayment of postage being spotted so as to determine whether the measures for detecting underpayment need to be enhanced; and**
 - (iv) **stepping up efforts in reminding the public to ensure that sufficient postage is affixed on mail items to avoid surcharge or possible mailing delay; and**
- (c) **consider taking stringent measures to prevent underpayment of postages (e.g. increasing the level of surcharge) should the situation deteriorate.**

Note 9: *Since September 2014, the HKP has implemented by phases the Integrated Postal Services System for automating counter operation and streamlining back-end support functions.*

Response from the Government

2.16 The Postmaster General agrees with the audit recommendations. She has said that the HKP:

- (a) has stepped up checking of mail items with a higher risk of underpayment of postage, supplemented by the issue of additional guidelines to supervisors and frontline staff;
- (b) has embarked on a review with the objective of enhancing control over underpaid mail items with proportionate resources. The review (targeted for completion by early 2016) will take into account practical considerations and the administrative costs involved when formulating appropriate measures to recover underpayment;
- (c) had enhanced public education on the need to pay sufficient postage and will keep up its effort in this regard; and
- (d) will keep the situation under review and consider the need for more stringent measures if the situation so warrants.

Procurement of airfreight services

2.17 The HKP needs airfreight services for mail delivery (Speedpost and airmail) to places outside Hong Kong. For 2014-15, expenditure on airfreight services amounted to \$754 million, or 97% of the HKP's total conveyance expenditure.

2.18 Since 2011-12, the HKP has conducted annual procurements of airfreight services for its Speedpost and airmail. Audit reviewed the HKP's 2014-15 tender exercise and found that there is room for improvement.

2014-15 tender exercise

2.19 In the 2014-15 tender exercise, successful tenderers were required to provide the services on a route-by-route basis for the delivery of Speedpost and airmail from Hong Kong to 134 Speedpost destinations and 153 airmail destinations for a period of 12 months commencing 1 October 2014.

2.20 The tender was closed in mid-June 2014 and 29 tenders were received for bidding one or more of the three services (Speedpost, priority airmail and lower priority airmail — Note 10). The tenders were evaluated by a Tender Assessment Panel comprising six HKP senior staff. The tenderers were required to fulfil the essential requirement on completion of the delivery process within a specified timeframe before they could proceed to the next round of assessment (i.e. ranking of tenderers per destination in respect of each day of the contract period). For priority airmail and lower priority airmail, successful tenderers were ranked according to the basic charges they offered (prices quoted on a per kilogram basis) with the lowest offer ranked the highest. For Speedpost, ranking of tenderers was based on the weighted-sum obtained from different ranking criteria (such as basic charge offered, latest time of posting (Note 11) and availability of track and trace information). Allotment of capacity to a contractor for a particular destination in a day would be based on the results of the ranking exercises. The estimated contract value for the 2014-15 tender exercise was \$824.7 million.

Need to provide accurate information to Central Tender Board for approval of tender

2.21 According to the Government's Stores and Procurement Regulations (SPRs), for non-works service contract of a value exceeding \$5 million, financial vetting shall be conducted on a tenderer who is being considered for the award of the contract in order to ensure that the tenderer is financially capable of fulfilling the contract requirements.

Note 10: *Lower priority airmail service is for bulk airmail items which are less time sensitive.*

Note 11: *The latest time of posting is determined with reference to the departure time of a flight from Hong Kong offered by each tenderer.*

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2.22 The HKP stated in the tender document that:

- (a) tenderers were required to submit audited accounts for the past three years, and projected profit and loss accounts and cash flow statements for the contract period;
- (b) if a tenderer passed the financial vetting or the estimated value of the contract was not more than \$5 million, no contract deposit would be required; and
- (c) if a tenderer failed the financial vetting and the estimated value of the contract was over \$5 million, the HKP may require the selected tenderer to submit a deposit equivalent to 0.5% of the estimated contract value (Note 12).

2.23 Audit examined HKP's records and noted that HKP did not require the tenderers who failed the financial vetting and whose estimated contract value exceeded \$5 million to submit a contract deposit. The HKP considered that it would only pay service fees to a contractor after the contractor had satisfactorily provided the services, and the HKP could also seek services from other contractors if necessary.

Note 12: *According to the SPRs, as protection of the Government's interest, for non-works service contracts of a value exceeding \$5 million, contract deposit is normally required at about 5% of the contract value should the tenderers have failed the financial vetting or have not undergone any financial vetting; or at no more than 2% of the contract value for tenderers passing the financial vetting. In response to a query raised by the Financial Services and the Treasury Bureau on why a contract deposit of 2% was not required if the tenderers concerned had passed the financial vetting, the HKP explained that this aligned with the HKP's previous practice and was to strike a balance between protection of Government's interest and attractiveness of the tender.*

2.24 Audit further noted that when seeking the Central Tender Board's approval of the award of contracts (Note 13), the HKP informed the Board that:

- (a) the tenderers had been financially vetted and were considered financially capable of undertaking the contracts; and
- (b) as they had passed the financial vetting, no contract deposit was required.

Audit considers that the HKP needs to provide accurate information to the Central Tender Board on the results of its financial vetting and the HKP's justifications for waiving the contract deposits. The HKP also needs to justify the exception to the general rules on contract deposit to the satisfaction of the Board.

Need to properly allot mail items to contractors

2.25 According to the HKP's procedures, daily allotment of mail items to contractors for carrying out airfreight services should be made in accordance with the ranking schedules prepared by the HKP's External Affairs Division based on the results of the tender exercise. For priority airmail and lower priority airmail, price is a major factor in determining the ranking priority. For Speedpost, which is considered a premium service, price, journey time, latest time of posting and availability of track and trace information are more important.

2.26 Audit noted that the responsible Superintendent of Posts did not always follow the ranking schedules prepared by the External Affairs Division in the daily allotment exercise. In response to Audit's enquiry, the HKP explained in August 2015 that the actual utilisation of the conveyance capacity of the contractors is subject to operational and business needs and other considerations such as fluctuation in the mail volume and the arrival pattern of outward mail at the AMC. The major reasons for not following the recommended ranking schedules include:

Note 13: *The Central Tender Board, chaired by the Permanent Secretary for Financial Services and the Treasury (Treasury), considers and decides on the acceptance of service tenders exceeding \$15 million.*

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- (a) insufficient mail volume to fill the available capacity of the highest ranking flight at the flight's cut-off time;
- (b) the highest ranking flight was delayed or cancelled;
- (c) no available containers for the highest ranking flight; and
- (d) there was heavy traffic on hand requiring prompt loading.

2.27 According to the HKP's Departmental Rules concerning conveyance services, guidelines have been laid down for dealing with circumstances such as flight delay, flight cancellation, taking alternative routing, and for procurement of additional air cargo allotment. For example, if there is a need for procuring additional air cargo allotment during normal office hours, the endorsement by authorised officers of the External Affairs Division is required. If the intended procurement is after normal office hours, the Superintendent of Posts in charge of conveyance or his supervisors can procure additional air cargo allotment.

2.28 Upon Audit enquiry, the HKP confirmed that there was no exceptional reporting function in the conveyance computer system to capture instances where the actual allotment did not follow the intended allotment sequence. Notwithstanding this, the HKP said that supervisors and managers at the AMC would refer to the "Weekly Report for Flight Allotment" to spot exceptions in allotments when performing supervisory and management checking. Audit considers that such checking was inadequate as the managerial staff at the AMC only checked two destinations in one or two days per week. The HKP said that it would enhance its computer system such that exception reports could be generated for comparing the actual allotment against the ranking schedule as set out by the External Affairs Division and such enhanced function would be available for use soon.

Audit recommendations

- 2.29 **Audit has recommended that the Postmaster General should:**
- (a) **review the HKP's practice of waiving contract deposits from contractors of airfreight services who failed the financial vetting and whose estimated contract value exceeded \$5 million;**
 - (b) **provide accurate information to the Central Tender Board on the results of the HKP's financial vetting and the justifications for waiving the contract deposits;**
 - (c) **enhance the computer system by adding an exception reporting function to highlight instances where the actual allotment to contractors for airfreight services did not follow the intended allotment sequence to facilitate supervisory/managerial review; and**
 - (d) **step up the monitoring of the allotment process.**

Response from the Government

2.30 The Postmaster General agrees with the audit recommendations. She has said that:

- (a) the HKP concurs that there is room for improvement in its previous reporting to the Central Tender Board on the outcome of the tender assessments in the 2014-15 Air Tender Exercise. Although there were sound justifications for waiving the contract deposit, the HKP should have explained to the Board more clearly the basis of the Tender Assessment Panel's decisions to regard the tenderers concerned as having passed the financial vetting and the reasons for not requiring the successful tenderers concerned to furnish a contract deposit. The HKP will improve in this regard when it carries out the tender evaluation for the tenders received for the 2015-16 Air Tender Exercise and in its subsequent reporting to the Central Tender Board; and

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- (b) system development is now underway to add an exception reporting function to the HKP's conveyance system to facilitate supervisory/managerial review. The HKP expects the new function to be available for use by mid-2016. Meanwhile, it has stepped up monitoring of the allotment process by introducing daily supervisory checks for six major destinations to supplement the weekly managerial checks.

Control and administration of overtime

2.31 The principal activities of the HKP are to provide general postal and ancillary services, which are by nature labour-intensive and demand-led. The actual manpower requirement varies, depending on the mail volume, the mix of mail types (e.g. mechanically or manually sorted traffic, priority or non-priority traffic, etc.) and the time of mail acceptance against the latest time of posting for the respective mail types. To cope with the workload which cannot be precisely forecasted, the HKP maintains a permanent staff establishment that could handle the normal workload. This is supplemented by a combination of monthly/daily/hourly-rated NCSC staff and overtime work to cope with the peaks and troughs of postal traffic while meeting the HKP's performance pledges for different mail services.

General principles governing overtime work

2.32 The Civil Service Regulations (CSRs) published by the Civil Service Bureau (CSB) have laid down strict controls on overtime work. The general principles governing overtime work by civil servants set out in the CSRs are:

- (a) overtime is work undertaken over and beyond an officer's conditioned hours, which may be undertaken only when it is unavoidable;
- (b) overtime must be authorised in advance and should be strictly controlled, properly supervised, and kept to the absolute minimum compatible with operational requirements. Regular or excessive overtime is not in the interest of staff or the service and should be avoided as far as possible and strictly limited;
- (c) government departments should set a ceiling for the overtime hours, as follows:

- (i) normally at 60 hours in a month which an officer may undertake or at a lower level if the departments see fit; and
- (ii) normally at 180 uncompensated overtime hours accumulated at any one time by an officer or at a lower level if the departments see fit;
- (d) overtime work performed should normally be compensated by time-off in lieu (TOIL). Granting of time-off is subject to exigencies of service; and
- (e) where TOIL is, or is likely to be, impracticable within one month of the day on which the overtime is worked, an overtime allowance (OTA) may be paid.

2.33 The CSRs are supplemented by CSB Circular No. 18/2000 “Guidelines on Control and Administration of Overtime”, which sets out a number of measures to strengthen the administration and control over the use of overtime. In particular, it states that TOIL is granted preferably before a staff takes his earned leave, unless the staff concerned has accumulated the maximum amount of earned vacation leave permissible under the relevant CSRs.

Overview of HKP’s overtime work

2.34 *Compensation of overtime hours.* As at 31 March 2015, the HKP had a strength of some 7,000 staff (see para. 1.7). Overtime hours worked by HKP staff had long been mainly compensated by OTA rather than compensated by TOIL (Note 14). For 2014-15, the number of overtime hours was 1,362,941, of which 1,115,234 hours (81.8%) were compensated by OTA (\$179 million).

Note 14: *For example, for the years 2012-13 to 2014-15 the ratio of overtime hours compensated by TOIL to that by OTA was about 1:5.*

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2.35 *OTA as percentage of salary.* For many civil servants working in the HKP (Note 15), OTA was equivalent to a significant percentage of their salaries. Table 3 shows that in 2014-15 OTA was paid to 4,244 civil servants (representing 83% of the 5,090 civil servants in the HKP). For these civil servants, OTA represented, on average, 15.4% of their salaries. For 14.4% of the 4,244 civil servants, OTA received was more than 30% of their salaries.

Table 3

**OTA as percentages of salaries of civil servants
(2014-15)**

OTA as percentage of salaries	Number of civil servants received OTA	
≤ 10%	1,847	(43.6%)
> 10% and ≤ 20%	1,084	(25.5%)
> 20% and ≤ 30%	702	(16.5%)
> 30% and ≤ 40%	382	(9.0%)
> 40% and ≤ 60%	208	(4.9%)
> 60%	21	(0.5%)
Total	4,244	(100%)

Source: Audit analysis of HKP records

Note 15: *According to CSB Circular No. 2/2001 “Employment of NCSC Staff”, NCSC staff are not entitled to OTA. The Circular also states that overtime work done by NCSC staff in excess of the normal hours of work should be compensated by TOIL.*

2.36 *Uncompensated overtime balance.* The overall uncompensated overtime balance as at 31 March 2015 remained high at a level of 231,000 hours, or on average some 40 hours per staff (civil servants and NCSC staff) who had worked overtime.

Main causes of overtime work

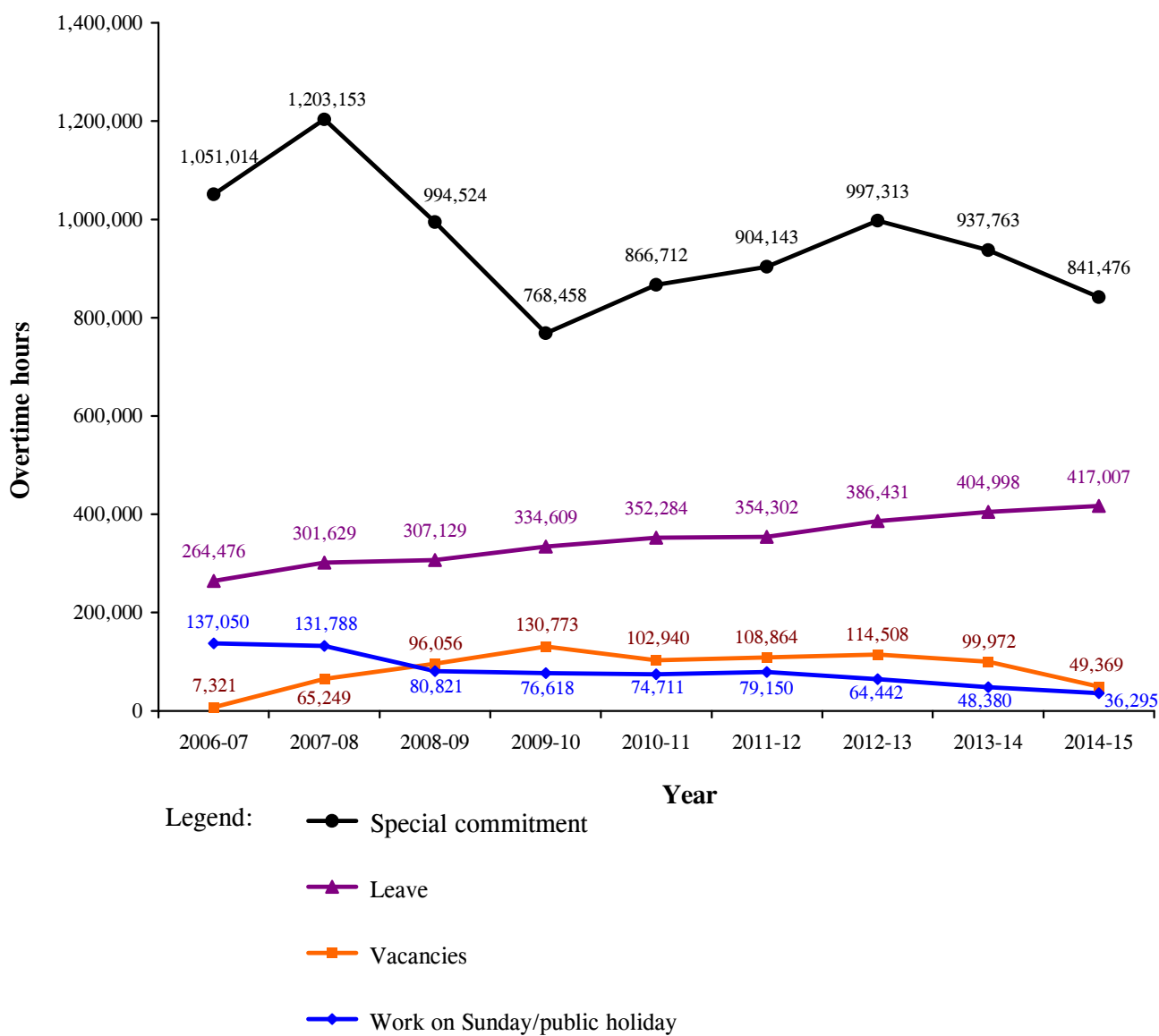
2.37 According to the HKP, overtime is mainly caused by special commitment (e.g. exceptionally heavy mail arrivals which are outside the handling capacity of scheduled staff) and leave taken by staff exceeding that covered by leave reserve staff (Note 16) (see Figure 5).

Note 16: *The HKP informed Audit in October 2015 that:*

- (a) *changes in mail traffic are often difficult to predict and are beyond HKP's control. Manpower need may arise at short notice and additional manpower is required urgently; and*
- (b) *the HKP faces institutional manpower shortage at specific stages of recruitment/promotion exercises. The waiting list from the last round of recruitment/promotion exercise will cease to be valid once the HKP embarks on a fresh round of recruitment or convenes a fresh round of promotion exercise. Pending the completion of the recruitment/promotion exercises, which normally takes six to nine months, the HKP has to cover any net vacancies arising during this period by various means (e.g. undertaking overtime work by its regular staff, redeploying leave reserve staff to fill functional vacancies, etc.).*

Figure 5

Overtime hours arising from four causes
(2006-07 to 2014-15)



Source: HKP records

Remarks : Overtime hours for the four causes accounted for 98% of the total overtime hours. According to the HKP, the relatively high number of overtime hours in 2006-07 to 2008-09, 2012-13 and 2013-14 was due to exceptionally high mail volume arising from events such as elections. A substantial amount of overtime work was also incurred in the third quarter of 2013-14 for handling a sudden upsurge of dangerous goods detected in airmail items.

- 2.38 The HKP informed Audit in September and October 2015 that:
- (a) overtime work was undertaken when the regular duty hours of HKP's staff were unable to cope with fluctuations in the workload and when the available manpower fell short of the normal level due to staff shortage arising from vacancies and absence;
 - (b) the HKP's manpower requirement on a day-to-day basis was directly related to the quantity and characteristics of different categories of mail as broadly defined by the delivery standard, dimensions and weight. In this connection:
 - (i) the mix of mail types had changed in recent years, with a rise in packets and a corresponding drop in letters;
 - (ii) the average unit weight of ordinary local mail and inward mail up to 2 kilograms had continued to increase;
 - (iii) mail items (including ordinary mail, bulk airmail, parcels and Speedpost items) had increased in bulkiness;
 - (iv) to safeguard aviation safety, the HKP was required to take appropriate measures to detect dangerous goods (such as lithium batteries) before uplift. For items detected to contain dangerous goods, the HKP had to incur additional resources in arranging their return to the mailers; and
 - (v) there was an increase in delivery points (Note 17) as a result of urban development even though the overall mail volume was decreasing; and

Note 17: *A delivery point is a single mailbox or other place at which mail is delivered. It differs from a street address in that each address may have several delivery points, such as apartments and offices.*

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- (c) the HKP had exerted much effort to clear the large accumulated uncompensated TOIL balance, which had been steadily reduced to some 231,000 hours as at 31 March 2015, representing a reduction of 12% when compared to the balance as at 31 March 2014, or 34% when compared to the balance as at 31 March 2012. The uncompensated TOIL balance was further reduced to 217,000 hours as at end of September 2015.

Audit recommendations

2.39 **Audit has recommended that the Postmaster General should:**

- (a) **monitor closely the overtime work by HKP staff to ensure compliance with the relevant CSRs and CSB circular, and ensure that senior management's endorsement is obtained in exceptional circumstances where non-compliance is justified; and**
- (b) **continue monitoring closely the uncompensated overtime hours balance with a view to reducing it to an acceptable level.**

Response from the Government

2.40 The Postmaster General agrees with the audit recommendations. She has said that the HKP:

- (a) has made persistent effort to reduce overtime work at source;
- (b) has strengthened the departmental control mechanism to ensure compliance with the service-wide and departmental requirements in the administration of overtime work. The eDuty List System and the Attendance Management System have been enhanced so that updated information on the overtime hours of individual staff is available to frontline supervisors/managers in a timely manner to facilitate proper allocation of overtime work. Heads of operational divisions conduct monthly reviews to ensure that the incurrence of overtime work is fully justified; and

- (c) will also keep up its effort in working down the overall balance of uncompensated overtime hours by a combination of measures, including reducing overtime work at source, maintaining a dedicated team to clear the uncompensated balance and closely monitoring progress.

Overtime of Mail Distribution Division

2.41 The Mail Distribution Division (MDD) of the Postal Services Branch is mainly responsible for the delivery of mail items to different delivery points in Hong Kong. As at 31 March 2015, the MDD had 2,670 civil servants including 2,254 (84%) Postman grade staff. Under the MDD, there are 28 delivery offices (DOs) (13 on the Hong Kong Island and outlying islands, 5 in Kowloon and 10 in the New Territories). Each DO oversees a number of delivery beats (ranging from 2 to 155). Each delivery beat is manned by one delivery postman (DPm). As at 31 March 2015, there were 1,756 delivery beats covering all the delivery points in Hong Kong.

2.42 In 2014-15, overtime hours worked by staff of the MDD and compensated by OTA were 534,790 hours, representing 48% of that of all staff of the HKP. The main reasons for overtime work by the MDD were temporary shortage of staff as a result of leave (sick leave or vacation leave) (Note 18) or absence (e.g. due to beat training) (Note 19) and increase in work pressure, which accounted for 56% and 37% of the overtime hours respectively.

Note 18: *According to the HKP, sick leave and vacation leave of DPm is normally covered by staff in the Leave Reserve pool of the relevant DO. However, when a delivery beat is left vacant due to staff promotion or retirement and no replacement is available (see Note 16 to para. 2.37), a postman from the Leave Reserve pool will be temporarily deployed to take up the beat, thus leaving insufficient Leave Reserve staff to cover the absence of postmen and overtime work will have to be incurred.*

Note 19: *According to the HKP, it provides intensive beat training for staff who newly take up mail delivery duties to familiarise them with the uniqueness of individual delivery beats. The duration of training depends on the locality of individual beats.*

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2.43 As the overtime hours worked by the MDD staff in 2014-15 represented 48% of the overtime hours worked by all staff of the HKP, Audit examined the overtime work of the MDD in detail.

Assessment of overtime of delivery postmen

2.44 **Standard workload.** For every delivery beat, the HKP has devised standard workload (in terms of different mail volume for each type of mail items such as letter, packet and registered mail) of the DPm and the standard time for processing and delivery of different types of mail items, taking into account the following:

- (a) **Indoor preparation time.** This is the time required to segregate and sequence mail items before delivery, prepare the delivery pouch, handle dead letters, redirected and undeliverable mail items, etc.;
- (b) **Journey time.** This is the time required to reach the first delivery point from the DO plus the time required for returning to the DO from the last delivery point; and
- (c) **Outdoor delivery time.** This is the time required to travel from one delivery point to another along the delivery beat and deliver the mail items.

2.45 **Assessment of daily workload.** The actual workload of a DPm in a day and the time required to deliver the mail items in a delivery beat is computed as follows:

- (a) for machine-sorted items (e.g. standard sized letters), the mail volume data is captured by the Mechanised Letter Sorting System in the CMC;
- (b) for manual-sorted items (e.g. packets), the mail volume is counted by the sorters in the DO and reported to the Postal Inspector (i.e. Senior Postal Officer) who oversees the delivery beat; and
- (c) for other items that require proof of delivery (e.g. registered mail), the mail volume is captured by the HKP's Track and Trace System.

2.46 *Computation of overtime.* The data on mail volume mentioned in paragraph 2.45(a) to (c) above will be captured by the Mail Delivery Management System (Note 20). Where necessary, the Postal Inspector makes minor adjustments to the DPM's workload in the System after considering factors such as the characteristics of the delivery beat and the mail composition of that day. The System compares the standard workload of the beat (see para. 2.44) against the actual workload. If the time required to handle the actual workload exceeds the time required for the standard workload, overtime is granted to the DPM for handling the excess workload. As such, the amount of OTA and/or TOIL are pre-determined with reference to the daily workload instead of the actual time taken by the DPM to complete the delivery work. Table 4 is an example of overtime computation.

Table 4
Computation of overtime for a DPM
manning Delivery Beat A
(one day in June 2015)

Mail	Standard workload (unit) (a)	Actual workload (unit) (b)	Difference (unit) (c) = (b) - (a)	Standard time (minute) (d)	Overtime (minute) (e) = (d) × (c)
Letter/flat (Note)	2,812	2,462	(350)	0.06	(21)
Packet	5	33	28	1.5	42
Registered mail/ Speedpost item	11	17	6	2	12
Total overtime before adjustment					33
Overtime rounded down by the Postal Inspector					(3)
Total overtime granted					30

Source: Audit analysis of HKP records

Note: For workload assessment purpose, one flat item is counted as 1.5 letters.

Note 20: *The Mail Delivery Management System was implemented in 2005 to assist the Postal Inspectors in workload assessment. It provides statistical data on letters, flat items, registered mail, etc., for beat revision, strategic planning and new business initiative.*

Need to review the standard time

2.47 The HKP conducted two major exercises in 1999 and 2002 to establish and review the workload standard of its DPm. After the introduction of the Vertical Postman Preparation Fitting in 2001 (Note 21 — see Photograph 1), a time study was conducted in 2006, covering 132 beats, to evaluate the standard indoor preparation rate. Standard time for processing and delivering different mail items was developed and adopted in March 2008 after agreement with the HKP's staff unions.

Photograph 1

Vertical Postman Preparation Fitting



Source: Photograph taken by Audit on 16 June 2015

Note 21: *The Vertical Postman Preparation Fitting was introduced in 2001 to facilitate the DPm in mail delivery sequencing in accordance with the pre-determined route of a delivery beat. It is configured according to delivery route and mail volume of each beat. According to the HKP, benefits of the Vertical Postman Preparation Fitting include increased flexibility to meet mail volume fluctuation and changes of delivery points, improved sorting accuracy, and enhanced visibility on workload assessment and quality control.*

2.48 Audit noted that there had been no comprehensive review on the standard time for processing and delivering different mail items since March 2008. Taking into account factors such as changes in mail mix in recent years (Note 22), the learning effect as a result of accumulation of experience with a delivery beat (Note 23), and the changes in age profile of the HKP's DPm (Note 24), the HKP needs to carry out a comprehensive review of the standard time for processing and delivering different types of mail items.

Delay in carrying out beat revisions

2.49 Regular beat revisions (Note 25) are carried out to assess the workload of each beat to take into account factors such as new property developments, and changes in economic condition, mail mix and population. For this purpose, in the 1980s, HKP established a Beat Survey Team (BST) (Note 26) under the Productivity Services Section of the Postal Services Branch. The objectives of a beat revision exercise include:

- (a) re-assessing the workload standard of all the beats being reviewed;
- (b) evening out the workload of the delivery beats;
- (c) maintaining a delivery boundary which will improve both delivery and sorting efficiency; and

Note 22: *Audit noted from the HKP's records that, as compared to 2010-11, the average volumetric increase and weight increase per item for local mail and inward ordinary mail in 2014-15 were 12% and 16% respectively.*

Note 23: *According to the HKP, local experience of each beat is very important to a DPm to maintain efficiency and reliability of service. Therefore, save for reasons such as retirement, promotion and request for transfer, a DPm will remain in his delivery beat for a long period of time.*

Note 24: *As at August 2015, the average age of DPm was over 45.*

Note 25: *A beat revision exercise comprises five steps: (a) beat survey; (b) mail traffic analysis; (c) beat design and formation; (d) consultation with supervisors and staff; and (e) finalisation and implementation.*

Note 26: *The BST comprises 12 staff, namely 2 Senior Postal Inspectors (at the rank of Superintendent of Posts) and 10 Postal Inspectors (at the rank of Senior Postal Officer).*

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- (d) aligning staff resources used in mail delivery with the latest mail traffic.

2.50 According to the guidelines of the HKP, a beat revision exercise for every DO should be carried out every three years. However, Audit noted that there were substantial delays in the beat revision exercises. Audit analysis of the latest beat revision dates of 1,706 beats (provided by the HKP in August 2015) revealed that 1,159 beats (68%) were overdue for beat revision (see Table 5).

Table 5
Overdue position of beat revisions
(August 2015)

Overdue period	Number of beats
< 1 year	235 (21%)
1 to < 2 years	316 (27%)
2 to < 3 years	489 (42%)
3 years or more (Note)	119 (10%)
Total	1,159 (100%)

Source: Audit analysis of HKP records

Note: The longest overdue period was 3.4 years.

2.51 In response to Audit's enquiry, the HKP informed Audit in September 2015 that:

- (a) in order to maintain flexibility and address operational needs promptly without waiting until the next round of beat revision, minor patching to a delivery beat was conducted by the DO at the local level;
- (b) although full-scale beat revision exercises had not been completed for a number of DOs, the BST had assisted seven DOs in the conduct of patching work since 2011;

- (c) due to operational need, the BST was deployed to conduct workload assessment for the three Speedpost Centres and three Speedpost Hubs (which were not included in the original beat survey plan) in 2012 to 2014. The BST undertook workload assessment for these offices first as the magnitude of potential efficiency gain was larger;
- (d) during the period from March 2013 to June 2014, the BST had three Postal Inspector vacancies (out of ten Postal Inspector posts); and
- (e) the HKP planned to increase the establishment of the BST by five staff (one Superintendent of Posts and four Senior Postal Officers). Subject to the established mechanism for post creation and manpower availability, the HKP expected to clear the backlog and catch up with the three-year cycle by 2017.

Supervisory checks by HKP Headquarters

2.52 Supervisory checks on overtime of a DPm are conducted by individual DO and HKP Headquarters. At DO level, checks are carried out to ensure that the DPm delivers mail according to the required delivery time based on workload assessment. Checks are also conducted by senior staff in DO by reviewing Postal Inspectors' Daily Log Sheet generated by the Mail Delivery Management System and counting mail items against the record in the log sheet. At HKP Headquarters level, the BST conducts supervisory checks on two DOs in each month (two beats per DO). The purpose of the checking is to collect data for beat revision or to conduct minor patching of a beat if deemed necessary. The BST reports to the HKP senior management on any irregularities found.

2.53 Audit considers that the supervisory checks by the BST is important because they were more independent than those conducted at DO level. However, the BST only carries out supervisory checks of 48 beats a year (i.e. 2 beats per DO \times 2 DOs per month \times 12 months) representing only 2.7% of the 1,756 beats in 2014-15. Furthermore, as the BST has not kept statistics on how many cases in which the Team had found DPm completing their tasks before the scheduled time, Audit reviewed 16 cases conducted during the period December 2014 to March 2015 and noted that in four cases (25%), the DPm concerned completed the delivery tasks satisfactorily well before the scheduled time. In two of these four cases, the DPm did not receive the OTA originally computed (see Table 6). These

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four cases had not been reported to the senior management for further investigation. Audit findings suggested that there is a need for the HKP to carry out a comprehensive review on its standard time and standard workload of the delivery beats (see paras. 2.47 to 2.50).

Table 6
Supervisory checks conducted by BST
(2014 and 2015)

Case	Month	DO of the beat	Particulars	Audit remarks
A	December 2014	A	The DPm completed the delivery tasks satisfactorily at 2:03 p.m. The scheduled arrival time at the last delivery point was 3:27 p.m.	The actual workload was in line with the standard workload. The DPm completed his tasks much earlier because the time needed for the tasks was less than the standard time.
B	February 2015	B	The DPm completed the delivery tasks satisfactorily at 3:05 p.m. The scheduled arrival time at the last delivery point was 3:42 p.m.	The actual workload was in line with the standard workload. The DPm completed the tasks some 40 minutes earlier because the time needed for the tasks was less than the standard time.
C	March 2015	C	The scheduled arrival time at the last delivery point was 3:23 p.m. and OTA for 30 minutes was approved. The DPm completed the delivery tasks satisfactorily at 1:02 p.m. before taking his lunch.	The originally approved OTA for 30 minutes was cancelled.
D	March 2015	C	The scheduled arrival time at the last delivery point was 2:55 p.m. and OTA for 70 minutes was approved. The DPm completed the delivery tasks satisfactorily at 2:36 p.m.	The originally approved OTA for 70 minutes was cancelled.

Source: *Audit analysis of HKP records*

2.54 To provide more accurate information on the time a DPm arrives at each delivery point so as to facilitate checking and beat revision exercises, Audit considers that the HKP may explore the use of technologies (e.g. personal digital assistant equipped with Global Positioning System or tour monitoring system (Note 27)) to keep track of the time required by DPm to complete their work.

Audit recommendations

2.55 **Audit has recommended that the Postmaster General should:**

- (a) **consider carrying out a comprehensive review of the standard time for processing and delivering different types of mail items;**
- (b) **ensure that beat revision exercises are carried out in a timely manner according to the prescribed schedule;**
- (c) **consider carrying out supervisory checks by the BST on more delivery beats;**
- (d) **ensure that the BST compiles statistics on cases where the Team found the actual mail delivery time taken by DPm is significantly deviated from the scheduled completion time and investigate the reasons for the variance to facilitate follow-up action and future beat revision exercises; and**
- (e) **explore the feasibility of using technologies (e.g. personal digital assistant with tracking function) to keep track of the time required for the DPm to complete the delivery tasks with a view to providing more accurate information for beat revision exercises.**

Note 27: *A tour monitoring system records the time when an employee reaches certain points on a tour. Checkpoints are commonly placed at the ends of the route and at critical points. The system includes handheld data loggers and sensors fixed at checkpoints.*

Response from the Government

2.56 The Postmaster General agrees with the audit recommendations. She has said that the HKP:

- (a) will carry out a comprehensive review of the standard time for processing different types of mail items so as to provide an updated basis for workload assessment for DPm;
- (b) is taking steps to augment the BST, subject to the established mechanism for post creation and staff availability, so as to catch up with the prescribed schedule for conducting beat revision exercises and carry out supervisory checks on more delivery beats;
- (c) will also explore the feasibility of using technologies (e.g. personal digital assistants with tracking function) for obtaining information on the time required for DPm to complete their delivery tasks in support of the conduct of beat revision exercises; and
- (d) aims to complete the review in 2017, before embarking on the scheduled replacement of the personal digital assistants currently used by DPm. Meanwhile, the BST has already started to compile statistics on cases where the actual mail delivery time taken by DPm is significantly different from the scheduled completion time to facilitate analysis of any variance and appropriate follow-up action.

Monitoring of staff regularly working long overtime

2.57 According to CSB Circular No. 18/2000, habitual overtime and large amount of uncompensated overtime hours are undesirable. For each year in the five-year period 2010-11 to 2014-15, Audit identified 50 staff (30 Postman grade staff and 20 Postal Officer grade staff) of the Postal Services Branch who had worked the largest number of overtime hours in that year. Audit found that many staff worked overtime on a regular basis (e.g. 38 staff had worked the largest number of overtime hours for three or more years out of the five-year period — see Table 7).

Table 7

**Staff who worked the largest number of overtime hours
(2010-11 to 2014-15)**

	Postman grade		Postal Officer grade		Total
	Postman	Senior Postman	Postal Officer	Senior Postal Officer	
	(number)				
5 years	10	Nil	2	2	14
4 years	6	Nil	5	2	13
3 years	5	1	4	1	11
2 years	13	Nil	5	4	22
1 year	31	1	14	5	51
Total	65	2	30	14	111

Source: Audit analysis of HKP records

2.58 Audit analysed the overtime and staff records of the 111 staff (see Table 7) and found that:

- (a) some staff of the AMC had worked significant amount of overtime (paras. 2.59 to 2.61);
- (b) some staff were not required to exhaust TOIL before taking vacation leave (paras. 2.62 and 2.63); and
- (c) some staff had taken long sick leave and worked long overtime (paras. 2.64 and 2.65).

Management of mail processing

Some staff of AMC had worked significant amount of overtime

2.59 Most of the 111 officers who regularly worked overtime (see Table 7 in para. 2.57) were staff of the AMC of the International Mail Division. In particular, there were 14 staff who had worked the largest number of overtime hours in all the five years. They worked some 990 to 1,440 hours of overtime (average 1,115 hours) each year (1,084 hours compensated by OTA and 31 hours by TOIL). Audit noted that the average age of these 14 staff was 51 years old as at 31 March 2015 (ranging from 40 to 59, with four staff aged 55 or above).

2.60 In response to Audit's enquiry, the HKP informed Audit in September 2015 that:

- (a) the AMC operated round-the-clock throughout the year, including Sundays and public holidays. The staff there mainly worked in two eight-hour shifts, supplemented by overtime work, to meet the HKP's pledged performance standards. Taking account of fluctuations in the mail volume, diverse flight schedules and the uneven distribution of workload throughout the day due to varying mail arrival time, the HKP organises the duty rosters of its civil service staff at the AMC to align with the mail arrival pattern as far as practicable. The HKP revisited the arrangement in May 2015 and found that it was not cost-effective to create another shift (with additional civil service or NCSC posts) as slack hours will result. On the other hand, part-time jobs are unattractive to job-seekers;
- (b) overtime work was incurred to cope with the manpower shortage arising from vacancies. The HKP had encountered considerable difficulty in recruiting NCSC staff because of the intense competition for manpower at Chek Lap Kok despite various efforts such as distributing household circulars and organising a recruitment event at Tung Chung (Note 28);

Note 28: *In this regard, the HKP had informed Audit that as at 1 July 2015, there were 9 Operations Assistant vacancies and 11 Worker vacancies at the AMC, accounting for 4.1% and 9.7% respectively of the Operations Assistant and Worker workforce of the AMC.*

- (c) the HKP had made continuous effort in process re-engineering and relocating part of the operations of AMC to other units in town (e.g. relocating the Inward Registered Section of the AMC to the CMC in May 2014) in order to maximise the use of resources as well as addressing the difficulties in recruitment of contract staff at AMC; and
- (d) as overtime work is undertaken on a voluntary basis, relevant operational divisions have expanded their overtime rotation lists by inviting more staff to perform overtime work. Manpower reviews in operational units were conducted in early 2015 to assess the requirements for additional regular positions, if any. Since September 2014, the management of the AMC had been training up a larger pool of staff to share out the overtime work. It had also taken various measures to minimise the incurrence of overtime.

2.61 Audit appreciates the difficulties faced by the HKP. Nevertheless, CSB Circular No. 18/2000 stipulates that when overtime becomes a regular pattern of work or has reached an excessive level, management should review the work patterns and consider alternative methods of deploying staff, such as re-scheduling duty hours or the weekly rest days. The HKP needs to keep under review the operation and workload of the AMC with a view to reducing overtime work and reallocating staff among different sections. The HKP also needs to take effective action to reduce the vacancy rate of NCSC staff working in the AMC.

Some staff not required to exhaust TOIL before taking vacation leave

2.62 According to CSB Circular No. 18/2000, TOIL is granted preferably before a staff takes his earned leave, unless the staff concerned has accumulated the maximum amount of earned vacation leave permissible under the relevant CSRs (see para. 2.33). Audit examined the leave records of the 50 staff who worked the largest number of overtime hours for 2014-15 and found that 8 staff of Postal Officer grade and 20 staff of Postman grade (who had not accumulated the maximum amount of earned vacation leave) were allowed to take vacation leave before first using their TOIL balances.

Management of mail processing

2.63 In response to Audit's enquiry, the HKP accepted that there were a few cases where the staff concerned were granted vacation leave instead of TOIL although their vacation leave balance had not reached the maximum accumulation limit and/or uncompensated TOIL balance had reached the departmental ceiling of 50 hours. This was because some supervisors did not strictly observe the guidelines on the granting of vacation leave. To address this issue, the HKP said that:

- (a) it had reminded all supervisors of the need to strictly observe the requirements of the relevant guidelines;
- (b) it had additionally introduced procedures requiring staff in the Postal Services Branch to make self-declaration on their vacation leave balance and TOIL balance when applying for vacation leave. For staff in the Postal Services Branch who used the Government's Electronic Leave Application and Processing System for submitting leave applications, the self-declaration arrangement commenced in July 2015; and
- (c) in August 2015, this self-declaration arrangement was extended to those Divisions in the Postal Services Branch where vacation leave applications were made on paper forms.

Some staff took long sick leave and worked long overtime

2.64 Audit noted that in some cases, staff of the HKP worked long overtime during periods where long sick leave were granted to them. The cases were referred to the HKP for follow up. In response to Audit's enquiry in August 2015, the HKP reviewed the records of the 111 civil servants who had worked the largest number of overtime hours during the period 2010-11 to 2014-15 (see para. 2.57). The HKP had identified signs of suspected abuse of sick leave in two cases. Staff who were suspected of abusing sick leave would be placed under the CSR 1291 requirement (Note 29) and subjected to quarterly reviews on the sick leave situation. The HKP had also asked supervisors in operational units to tighten up control on the shop floor and refrain from assigning overtime work to staff after receiving medical treatment.

Note 29: *According to CSR 1291, the staff concerned is required to attend before a Government or Hospital Authority medical officer on each occasion he wishes to take sick leave.*

2.65 In the light of the above findings mentioned in paragraphs 2.57 to 2.64, the HKP needs to tighten up its monitoring of staff who have to work long overtime and ensure that the relevant CSRs and CSB circular are complied with.

Audit recommendations

2.66 **Audit has *recommended* that the Postmaster General should:**

- (a) **review the operation and workload of different sections at the AMC with a view to rationalising their workload and reducing the need for overtime work;**
- (b) **provide more training to AMC staff in order to expand the pool of staff possessing specific experience/expertise and facilitate flexible staff deployment;**
- (c) **take necessary action to reduce the vacancy rate of NCSC staff working at the AMC; and**
- (d) **remind frontline supervisors to:**
 - (i) **strictly follow the relevant regulations in the granting of TOIL; and**
 - (ii) **avoid requiring staff who took long sick leave to work long overtime unless they have fully recovered.**

Response from the Government

2.67 The Postmaster General agrees with the audit recommendations. She has said that the HKP:

- (a) will continue with its ongoing effort to reduce the need for overtime work at the AMC. Various measures, for example, re-engineering the work processes, reviewing the duty schedules, expanding the pool of staff who could take up overtime work through multi-skill training as well as expanding the pool of staff who are willing to take up cross-divisional overtime work, will continue; and
- (b) has conducted briefings for all frontline supervisors recently. In addition to issuing periodic reminders and conducting periodic briefings for frontline supervisors, the HKP will consider appropriate measures to ensure that the stipulated requirements on the administration of overtime work are followed.

PART 3: MANAGEMENT OF POST OFFICES

3.1 This PART examines the HKP's management of post offices. Audit has found scope for improvement in the following areas:

- (a) performance of post offices (paras. 3.3 to 3.13); and
- (b) provision of mobile post offices (paras. 3.14 to 3.19).

Background

3.2 As at 30 September 2015, there were 124 post offices (see Table 8) and 3 mobile post offices to provide various postal and non-postal services. These services include acceptance of parcels and registered/Speedpost mail, counter sales of stamps and philatelic products, and PayThruPost service for payments of bills (e.g. government bills and utility bills).

Management of post offices

Table 8
Provision of post offices in 18 districts
(30 September 2015)

District	No. of post offices
Hong Kong Island	
1. Central and Western	7
2. Wan Chai	7
3. Eastern	10
4. Southern	8
Sub-total	32
Kowloon	
5. Yau Tsim Mong	6
6. Sham Shui Po	7
7. Kowloon City	7
8. Wong Tai Sin	7
9. Kwun Tong	8
Sub-total	35
New Territories	
10. Tsuen Wan	5
11. Tuen Mun	6
12. Yuen Long	6
13. North	4
14. Tai Po	3
15. Sai Kung	5
16. Sha Tin	13
17. Kwai Tsing	7
18. Islands	8
Sub-total	57
Total	124

Source: Audit analysis of HKP records

Performance of post offices

Majority of post offices operating at a loss

3.3 Most of the operating costs of the post offices were staff costs and accommodation costs. In 2014-15, 103 (81%) of 127 post offices (including the 3 mobile post offices) recorded loss, ranging from \$350,000 to \$5.2 million. The details are summarised in Table 9.

Table 9

**Post offices operated at a loss
(2014-15)**

Loss per post office	Number of post offices	Total amount of loss (\$ million)
\$1 million or below	17	12.2
> \$1 million to \$2 million	72	103.3
> \$2 million to \$3 million	10	23.7
> \$3 million to \$4 million	3	10.4
> \$4 million	1	5.2
Total	103	154.8

Source: Audit analysis of HKP records

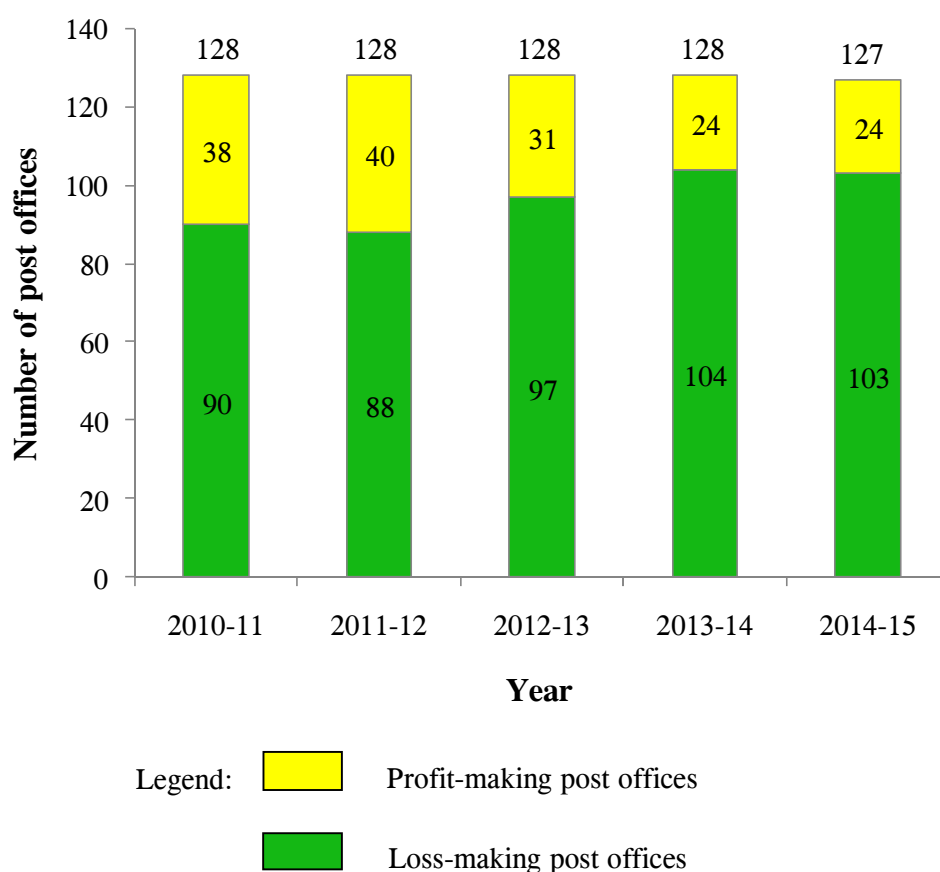
Management of post offices

3.4 Audit analysis of the operating results of the post offices in the five years 2010-11 to 2014-15 revealed that:

- (a) the number of post offices making loss increased from 90 (70% of 128 post offices) in 2010-11 to 103 (81% of 127 post offices) in 2014-15 (see Figure 6); and
- (b) 84 (66% of 127 in 2014-15) post offices made loss in all the five years.

Figure 6

**Financial performance of post offices
(2010-11 to 2014-15)**



Source: *Audit analysis of HKP records*

Productivity index

3.5 Each post office is headed by a Postmaster, with staff establishment comprising Postal Officer grade, Postman grade and NCSC staff. According to the HKP, the minimum staff establishment of a post office is two, comprising one Senior Postal Officer and one Senior Postman. In determining the number and composition of staff in a post office, the HKP would take into account various factors, such as the scale and mail traffic of the post office. As at 30 June 2015, some 700 staff were deployed in 124 post offices and 3 mobile post offices (see Table 10).

Table 10
Deployment of staff in 127 post offices
(30 June 2015)

Number of staff in each post office	Number of post offices	Total number of staff
2	51	102
3 to 5	38	147
6 to 10	23	179
11 to 15	10	124
16 to 20	3	53
21 to 40	1	34
Over 40	1	59
Total	127	698

Source: Audit analysis of HKP records

Management of post offices

3.6 The HKP uses a productivity index (Note 30), together with other mail traffic and resource statistics, for assessing the performance of each post office having regard to individual post offices' operational circumstances. According to the HKP, when departure from the normal trend and pattern is observed, operations managers will further ascertain and identify the underlying reasons with the aid of other relevant operations and management data as well as feedback from frontline staff, taking into account the specific local circumstances of individual post offices, and draw up improvement measures. The HKP produces monthly reports showing the productivity index of each post office for management review.

3.7 Audit analysed the productivity indices of 126 post offices (excluding one post office which was replaced by a mobile post office in April 2015) for 2014-15. Audit noted that the productivity indices of 28 post offices were below 70% (see Table 11 below — Note 31). Of these 28 post offices, all except one post office were operating at a loss in 2014-15. Furthermore, the productivity indices of two mobile post offices and five post offices on the outlying islands, as well as nine post offices, were consistently below 70% for the three years 2012-13 to 2014-15.

Note 30: *The productivity index was used by the HKP to measure the manpower utilisation at individual post offices.*

$$\begin{aligned} \text{Productivity index} &= \text{Staff hours required} \div \text{Staff hours used} \times 100\% \\ \text{Staff hours required} &= \text{Number of items handled} \times \text{standard time applicable} \\ &\quad \text{to the service} \end{aligned}$$

Note 31: *The HKP identified post offices with productivity index of 13% or more below the average productivity index of all post offices in the past six months for management attention. Audit used 70% (by deducting 13% from 79% (average productivity index in 2014-15), say 70%) for analysis purpose.*

Table 11

**Productivity indices of post offices
(2014-15)**

Productivity index	Number of post offices
45% to 50%	2
51% to 60%	5
61% to 70%	21
71% to 80%	44
81% to 90%	39
91% to 100%	11
Over 100%	4 (Note)
Total	126

Source: Audit analysis of HKP records

Note: The percentages ranged from 109% to 121%.

Remarks: The average productivity index of the 126 post offices was 79%.

3.8 In response to Audit's enquiry, the HKP informed Audit in September 2015 that:

- (a) post offices with productivity indices under 70% were broadly categorised into two groups: (i) 2-man or 3-man post offices on outlying islands/in more remote areas and mobile post offices for which the manpower deployed was already minimal; and (ii) post offices with extended business hours; and
- (b) to improve the productivity indices of post offices (see (a)(i) above), the business hours of 59 post offices (mainly 2-man and some 3-man post offices except mobile post offices and post offices on outlying islands) were shortened with effect from February 2015. For post offices with

Management of post offices

extended business hours (see (a)(ii) above), the HKP had adopted staff deployment measures (e.g. staggered duty hours). The HKP had observed improvement in the productivity indices in 2015-16 (up to July 2015).

Need to make improvement efforts to rationalise the post office network

3.9 In the past few years, the HKP had made efforts to rationalise the post office network, including:

- (a) downsizing some loss-making post offices (e.g. Lei Tung Post Office in June 2011 and Sha Kok Post Office in September 2014) by re provisioning them to locations with reduced floor area;
- (b) closing Chuk Yuen Post Office on every Wednesday with effect from February 2015;
- (c) shortening the business hours of 59 post offices from February 2015; and
- (d) replacing the Lok Wah Post Office with a mobile post office with reduced opening sessions (three mornings in a week) since April 2015.

3.10 Audit examined the distribution of post offices in various districts (see Table 8 in para. 3.2). Audit noted that some post offices were located within walking distance from another post office. Audit considers that the HKP needs to take into account the proximity of alternate post offices when devising measures to improve the resource utilisation and efficiency of post offices (e.g. staggered duty hours as mentioned in para. 3.8(b)).

3.11 In view of the fact that the majority of post offices were operating at a loss (see para. 3.3), and productivity indices of some post offices were consistently below 70% (see para. 3.7), Audit considers that the HKP needs to make continuous efforts to rationalise its post office network, including closely monitoring the performance of post offices. The HKP needs to make vigorous efforts to improve performance of post offices having regard to the service demand and operating costs, including exploring the feasibility of:

- (a) consolidating some post offices with other post offices in proximity;
- (b) downsizing some post offices with low demand for services through reprovisioning to locations with reduced floor area when opportunity arises;
- (c) replacing some post offices by mobile post offices;
- (d) for those post offices with low demand for services which were not feasible for closure, reducing their opening hours; and
- (e) redeploying staff of post offices with spare capacity in manpower resources.

Audit recommendations

3.12 **Audit has *recommended* that the Postmaster General should:**

- (a) **conduct regular reviews on the performance of post offices and make efforts to improve their performance, taking into account the demand for postal services, financial viability and manpower utilisation of individual post offices; and**
- (b) **continue the HKP's efforts to rationalise the post office network, including exploring the feasibility of consolidating the services provided by post offices to enhance resource utilisation and efficiency.**

Response from the Government

3.13 The Postmaster General agrees with the audit recommendations. She has said that the HKP:

Management of post offices

- (a) has been closely monitoring the overall performance of its post office network and taking appropriate actions to ensure its cost-effective operation. In doing so, it gives due consideration to the Government's responsibility to meet the postal needs of the public, local service demand, alternative means of service provision and the need to optimise the use of resources; and
- (b) will continue to manage the costs of service provision, explore new revenue streams and identify opportunities for further rationalisation.

Provision of mobile post offices

3.14 The HKP has used mobile post office (see Photograph 2) since 1960 to provide postal services, e.g. sales of stamps, acceptance of mail, and PayThruPost service (Note 32), to residents in remote and scattered villages. In discharge of the Government's universal postal service obligation (Note 33), the HKP operates these mobile post offices to complement its network of post offices and street posting boxes. There are two mobile post offices (Mobile Post Offices No.1 and No.2) serving various districts (such as Tuen Mun, Fanling, Yuen Long and Sha Tin) in the New Territories. In April 2015, a third mobile post office came into operation to replace the Lok Wah Post Office (see para. 3.9(d)). This mobile post office provides services only at Lok Wah (North) Estate in Kwun Tong. Each mobile post office is manned by two staff comprising a Senior Postal Officer and a Senior Postman. The operation of the three mobile post offices was summarised in Table 12.

Note 32: *There are limitations to the services provided, such as the maximum weight of each Speedpost/parcel item and local courier item are 10 kilograms and 2 kilograms respectively, and the maximum number of items per posting is five.*

Note 33: *Under the universal postal service obligation, the HKP has to charge a flat rate for all delivery addresses in Hong Kong and to maintain an extensive mail collection and mail delivery network.*

Photograph 2

HKP Mobile Post Office No. 2



Source: Photograph taken by Audit on 7 August 2015

Table 12
Operation of three mobile post offices
(30 June 2015)

Mobile Post Office	No. of service points	No. of visits per week for each service point	Duration of stay per visit
No. 1	33	1 to 3	15 to 50 minutes (Note)
No. 2	25	1 to 3	15 to 30 minutes
No. 3	1	3	3.5 hours

Source: Audit analysis of HKP records

Note: The duration of stay at each service point (except the Hong Lok Yuen service point) ranged from 15 to 30 minutes. For the Hong Lok Yuen service point, the duration of stay was 50 minutes.

Remarks: Mobile Post Offices No. 1 and No. 2 each visited on average 8 service points per day (ranging from 6 to 10 service points). Mobile Post Office No. 3 served one designated service point (Lok Wah (North) Estate) in Kwun Tong.

3.15 The HKP takes into account the following factors when it includes a place as a service point of a mobile post office:

- (a) it is inconvenient for the customers in the area to reach the nearest posting facilities easily;
- (b) it is cost-effective to add the service point when comparing with the business of the existing ones;
- (c) the service point is not within the catchment area of any existing/planned post office;

- (d) the setting up of the service point can release the customer pressure for request of addition/relocation of a post office; and
- (e) the service point can be added by adjusting the current schedules of the mobile post offices.

3.16 In 2009, the HKP conducted a review on the operation of mobile post offices, which resulted in deletion of 2 service points and creation of 15 new service points. To cope with the increase of service points, the frequency of visits to 13 points was reduced by 1 to 2 times each week. Since then, no further review on the provision of service points has been conducted (Note 34). In the light of the improvement of public transport network in the New Territories, Audit considers that the HKP needs to review the existing routes of the two mobile post offices serving the New Territories to enhance cost-effectiveness, taking into account its universal postal service obligation and the following factors:

- (a) ***Demand for postal service.*** The HKP does not maintain periodic statistics on the number of customers or items handled at each service point. Audit accompanied each of Mobile Post Offices No. 1 and No. 2 on two days, and noted that the number of customers and items handled for the service points were small. On average, each mobile post office served 11.5 customers and handled 12.5 items per day (see Table 13). For some service points, there were no customers;

Note 34: *In 2012, the HKP conducted a review to examine the feasibility of shortening the service duration of the service points to 15 minutes with a view to minimising the duration of unfavourable working conditions to its staff after the implementation of the Motor Vehicle Idling (Fixed Penalty) Ordinance (Cap. 611).*

Table 13

Patronage of mobile post office
(August and September 2015)

Date	No. of service points	Total no. of customers served	Total no. of items handled
Mobile Post Office No. 1			
27 August 2015 (Thursday)	10	8	9
1 September 2015 (Tuesday)	9	10	12
Mobile Post Office No. 2			
7 August 2015 (Friday)	8	20	20
25 August 2015 (Tuesday)	10	8	9
Average per day	9.3	11.5	12.5

Source: Audit site visits in August and September 2015

- (b) **Location of nearby post office.** The locations of some service points are in close proximity to nearby postal facilities which can be easily accessed through public transport; and
- (c) **Financial performance.** The two mobile post offices only generate a small amount of revenue and have been operating at a loss. The annual loss incurred by each mobile post office has been more than \$1 million each.

3.17 The third mobile post office commenced operation in April 2015 to replace the Lok Wah Post Office. The mobile post office provides service three days a week, with service hours from 9 a.m. to 12:30 p.m. (3.5 hours). The HKP needs to keep in view the third mobile post office's service performance.

Audit recommendations

- 3.18 **Audit has *recommended* that the Postmaster General should:**
- (a) **review the existing routes of the two mobile post offices serving the New Territories taking into account the service points' mail traffic and their proximity to nearby postal facilities;**
 - (b) **keep in view the service performance of the mobile post offices; and**
 - (c) **explore the potential of using mobile post offices to replace some post offices where feasible.**

Response from the Government

- 3.19 The Postmaster General agrees with the audit recommendations. She has said that the HKP:
- (a) is conducting a review on the existing routes of the two mobile post offices serving the New Territories having regard to the service demand at the existing service points, the Government's mission to provide accessible postal service to the public and other relevant factors such as resource implications; and
 - (b) will keep in view the service performance of mobile post offices to ensure that they continue to meet the postal needs of the local community.

PART 4: MANAGEMENT OF POSTAL VEHICLES

4.1 This PART examines the HKP's management of postal vehicles. Audit has found scope for improvement in the following areas:

- (a) management of HKP's vehicles (paras. 4.4 to 4.19); and
- (b) management of hired vehicles (paras. 4.20 to 4.30).

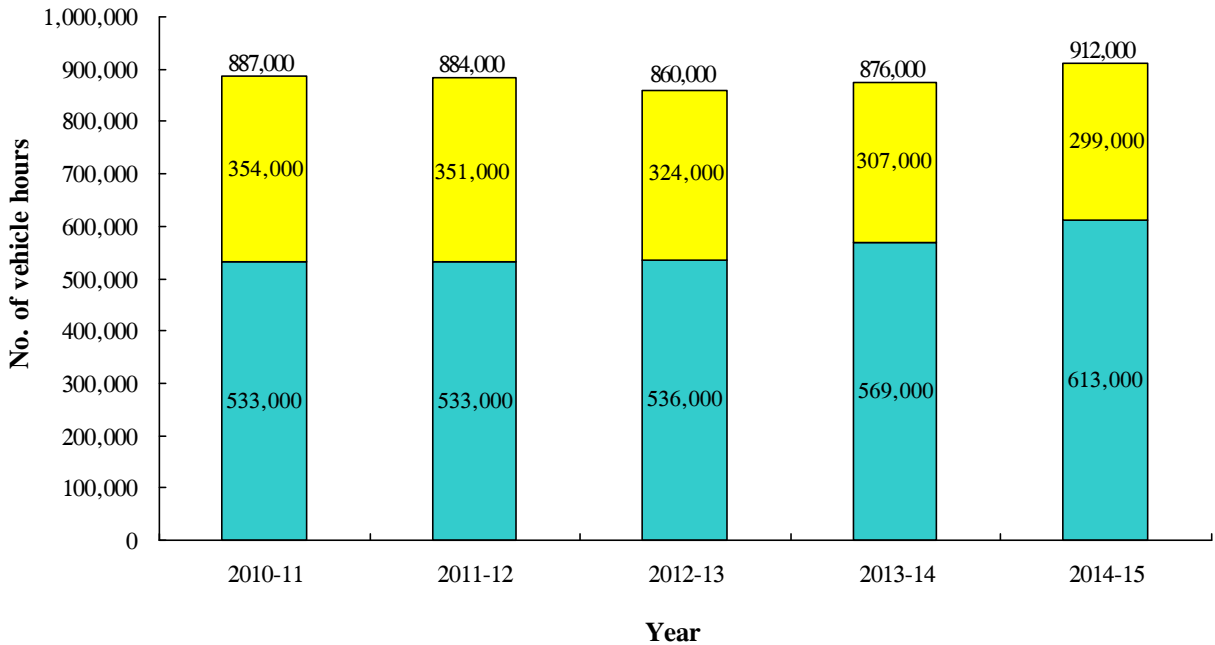
Background

4.2 As at 31 March 2015, the HKP had a vehicle fleet of 277 vehicles. In addition, the HKP also hired some 350 vehicles of different types such as light goods vehicles and trucks to supplement its own fleet. These vehicles were used for the collection and delivery of mail items such as collecting mail items from post offices and street posting boxes for delivery to the CMC, and transferring mail items between the mail processing centres and DOs.

4.3 In 2014-15, some 912,000 vehicle hours were used for transportation of mail items, involving expenditure of \$159 million. In the five years from 2010-11 to 2014-15, the number of vehicle hours increased by 2.8% from 887,000 hours to 912,000 hours (see Figure 7), while the expenditure increased by 28% from \$124 million to \$159 million.

Figure 7

**Number of vehicle hours
(2010-11 to 2014-15)**



Legend: HKP's vehicle hours
 Hired vehicle hours

Source: *HKP records*

Management of HKP's vehicles

Number of HKP's vehicles remained about the same

4.4 In the Director of Audit's Report No. 54 (March 2010), Audit recommended the HKP to consider inviting the Government Logistics Department (GLD) to conduct a transport review on HKP's vehicle fleet and the arrangements for the hiring of vehicles to identify room for improvement. In August 2011, the GLD completed the transport review and recommended the HKP to:

Management of postal vehicles

- (a) reduce the number of departmental vehicles so as to enhance efficiency and cost-effectiveness; and
- (b) consider using more hired vehicles to replace its departmental vehicles where it is practical and cost-effective (Note 35).

4.5 According to the HKP, it had implemented the GLD's recommendations as follows:

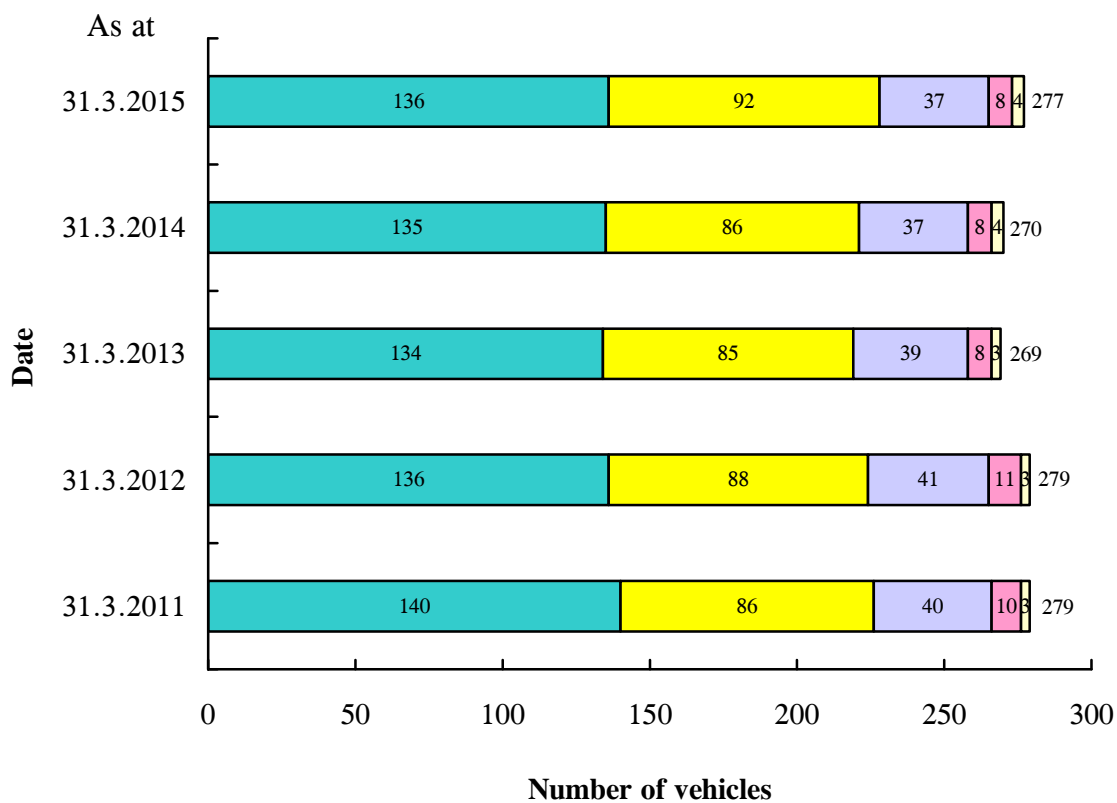
- (a) the number of departmental vehicles were reduced from some 300 in 2010 to 277 in March 2015; and
- (b) subject to operational constraints (e.g. mail security), hired vehicles were used as far as practicable.

4.6 The number of HKP's vehicles remained at about 270 during the years 2011 to 2015 (see Figure 8). According to the HKP, while some vehicles were reduced according to the GLD's recommendations, additional vehicles were procured (e.g. arising from the creation of new motorised beats — see para. 4.7(a)). Audit noted that while the number of vehicles remained about the same, the number of vehicle hours decreased by about 16% (from 354,000 hours to 299,000 hours) during the same period. The HKP needs to closely monitor the utilisation of its vehicle fleet.

Note 35: *According to the GLD's calculation, the cost of using hired vehicles was about half of the cost of using HKP's own vehicles. However, the difference would be much smaller if a postman had to be deployed to escort a hired vehicle.*

Figure 8

Number of HKP's vehicles
(2011-2015)



Legend: ■ Vans (Note) ■ Small estate cars (Note)
■ Trucks (Note) ■ Vehicles carrying passenger
■ Mobile post offices (light bus)

Source: HKP records

Note: Vans, small estate cars and trucks were deployed for transportation of mail and parcels (see para. 4.2).

Management of postal vehicles

4.7 Audit examined the procurement for additional vehicles and found that the usual justifications put up by the HKP were:

- (a) additional vehicles were required as a result of creation of new motorised beats after the beat revision exercise. Many of these beats were performed by hired vehicles before the procurement of vehicles;
- (b) it was not desirable to use hired vehicles to further increase such use; and
- (c) the existing utilisation rate was high, e.g. 85% as stated in 2013-14 and 2014-15 procurement exercise.

Audit noted that the HKP did not provide cost-benefit analysis on using its vehicles vis-à-vis hired vehicles (Note 36).

4.8 In response to Audit's enquiry, the HKP informed Audit in September 2015 that it adopted a prudent approach to the procurement of departmental vehicles by:

- (a) replacing only those vehicles which were condemned or beyond their service life;
- (b) meeting the need for vehicular transportation arising from ad hoc tasks with existing departmental vehicles; and
- (c) procuring new vehicles, as a last resort, to meet long-term operational needs or due to special requirements.

Note 36: *In this regard, in a review conducted in June 2015 by the HKP on the service contracts for hired trucks (see para. 4.25), the hourly rate of using hired vehicle was about half of that using HKP's own vehicle. According to the HKP, the two rates would be comparable if a postman had to be deployed to escort a hired vehicle (see also Note 35 to para. 4.4(b)). Audit noted that not all hired vehicles required escort.*

The HKP said that additional vehicle requirements would also be vetted by the GLD. To enhance capital project management, the HKP revised its Departmental Rules in May 2015 requiring the responsible officer of capital projects to conduct a cost-benefit analysis when seeking funding approval.

Inaccurate utilisation rate

4.9 Each month, based on the information provided by the two transport offices (i.e. in the GPO and CMC), the HKP's Management Services Division produces report on the utilisation rate of each type of vehicles for management information. The HKP uses a standard formula to calculate the utilisation rate, taking into account the following factors:

- (a) ***Number of hours used.*** The number of hours used was extracted from the vehicle log book, which recorded the departure time and arrival time of each journey; and
- (b) ***Number of hours available.*** The number of hours available was the number of working hours (number of working days × working hours per day — Note 37) minus:
 - (i) the number of hours the vehicle was under repairs and maintenance;
 - (ii) the number of hours when drivers were not available (working hours per day × number of days not available); and
 - (iii) the number of loading/unloading hours. The HKP pre-determined the loading/unloading hours for different types of vehicles, ranging from 1 hour to 4.5 hours per day.

Note 37: *Depending on the types of vehicles, the working hours ranged from 9 hours to 13.5 hours per day.*

Management of postal vehicles

4.10 Audit examined the calculation of utilisation rate and noted some shortcomings, such as:

- (a) ***Long pre-determined loading/unloading time for some types of vehicles.***
The loading/unloading time per day for medium truck under the administration of CMC Transport Office was pre-determined as 4.5 hours. Audit visited six offices and noted that the loading/unloading time for most journeys was less than 30 minutes. The total loading/unloading time per day could be less than 4.5 hours; and
- (b) ***Incorrectly counting some loading/unloading time as usage time.***
According to the HKP's calculation method, the loading/unloading time was deducted from the available hours because the usage hours did not include such time. However, Audit noted that very often in the vehicle log books, for a journey involving several loading/unloading points, only one departure time (start of journey) and one arrival time (end of journey) was recorded. As a result, counting the loading/unloading time between the departure time and arrival time could have overstated usage hours.

4.11 In response to Audit's enquiry, the HKP informed Audit in September 2015 that:

- (a) the current formula and assumptions used in calculating the utilisation rates did not reflect the current usage patterns of the departmental vehicles. The available hours for each type of vehicles were determined in 1999 and no longer reflect the changes made over the years to the postal operations;
- (b) the HKP saw a need to first review and update the formula for calculating the utilisation rates for different types of departmental vehicles having regard to the prevailing operational conditions, and then conduct a detailed analysis based on the utilisation rates calculated on the basis of the updated formula to identify if there were cases warranting further attention; and

- (c) notwithstanding the shortcomings of the existing formula for calculating the utilisation rates of the HKP's departmental vehicles, the HKP had been closely monitoring the utilisation of its departmental vehicular fleet by reference to information provided by the GLD (Note 38).

Low utilisation of some vehicles

4.12 As at 31 March 2015, there were 277 HKP's vehicles, of which 265 (96%) were used for transportation of mail items. The overall utilisation rate of vehicles used for mail transportation for 2014-15, as calculated by the HKP's current formula, was 80%, ranging from 36% to 146% (Note 39). Audit noted that after adjusting for the shortcomings of the HKP's calculation method (see para. 4.10), the utilisation rate of 15 vehicles was 50% or below (see Table 14 below).

Note 38: *The GLD issues half-yearly exception reports on vehicle utilisation to departments for necessary action, basing on two criteria:*

- (a) *the kilometre run of the vehicle was 30% or less than the normal kilometre run of the same type of vehicle in the government fleet during the period; and*
- (b) *the monthly average idle days of the vehicle were 6 days or more.*

Note 39: *Reasons for some utilisation rates exceeding 100% included:*

- (a) *some vehicles, such as trucks and medium vans, were required to transport mail on Sunday (e.g. to collect mail from street posting boxes). However, Sunday was not counted as working day in HKP's method of calculating utilisation rate (see para.4.9); and*
- (b) *loading/unloading time might be included as usage hours as a result of improper completion of vehicle log book (see para. 4.10(b)) and was also deducted from the number of available hours (see para. 4.9(b)).*

Table 14
Vehicles with utilisation rate of 50% or below
(2014-15)

Vehicle type	Vehicle	Utilisation rate (Note)
Small estate car	1	28%
	2	38%
	3	43%
	4	47%
	5	48%
	6	50%
Large van	7	36%
	8	37%
	9	43%
	10	49%
Light truck	11	35%
	12	39%
	13	50%
	14	50%
Medium truck	15	34%

Source: Audit analysis of HKP records

Note: The utilisation rates were based on Audit's calculation by taking into account the shortcomings of HKP's current method as mentioned in paragraph 4.10.

Audit considers that the HKP needs to closely monitor the utilisation of its vehicles (particularly those with low utilisation rates) to enhance efficiency and optimise the use of its vehicles.

4.13 In response to Audit's enquiry, the HKP informed Audit in September 2015 that of these 15 vehicles:

- (a) some were used as reserve vehicles and deployed for ad hoc operational tasks;
- (b) small estate cars in DOs were deployed for motorised delivery beats and their utilisation rates were closely related to the duty hours of the DPM (the serviceable time during mail delivery should be about 5 hours instead of the preset 9 hours); and
- (c) the utilisation of vehicles serving the CMC was affected by staff vacancies of Postman Driver posts. The HKP had launched a new recruitment exercise. It expected the utilisation rates of these vehicles to be improved when the aforementioned vacancies were filled.

Need to tighten supervisory checking

4.14 The HKP's vehicles are mainly deployed to mail processing centres, DOs and Speedpost Operations Centres for transportation of mail items (see para. 4.2). The HKP has established various supervisory measures to monitor the use of these vehicles (see Table 15).

Table 15

Supervisory measures on HKP's vehicles

Type of vehicles	Supervisory measures
All vehicles	<p>(A) Vehicle log book:</p> <ul style="list-style-type: none"> • records the points of departure and destination, and the departure time and arrival time • driver (pre-schedule route) or user (ad hoc trip) is required to sign on the log book for each journey • supervisor (i.e. Superintendent of Posts or Senior Postal Officer) periodically check the log book and sign on the log book after checking
<p>For vehicles deployed for:</p> <ul style="list-style-type: none"> • transferring mail items between the mail processing centres and DOs • collecting mail items from post offices and street posting boxes to the CMC 	<p>(B) Supervisory snap check on vehicles and drivers:</p> <ul style="list-style-type: none"> • supervisor (i.e. Superintendent of Posts or Senior Postal Officer) conducts surprise check regularly at selected call point to ensure vehicle arrives at the scheduled location and the conduct of the driver meets the driving requirements (e.g. turning off idling car engine and driving in a safely manner)
<p>For vehicles deployed to:</p> <ul style="list-style-type: none"> • Motorised Delivery Beat (to perform mail delivery service in remote and scattered areas) • Speedpost/Parcel Team 	<p>(C) Surprise call point check</p> <ul style="list-style-type: none"> • Postal Inspector conducts surprise inspection on selected call point, which included vehicle inspection and checking of vehicle log book, driver's and Postman's appearance and manner, and their performance on delivery and pick up service • frequency of checking: <ul style="list-style-type: none"> — Motorised Delivery Beat: not less than 6 times a year — Speedpost/Parcel Team: not less than 24 times a year <p>(D) Superior spot check</p> <ul style="list-style-type: none"> • Manager and Senior Postal Inspector/Superintendent of Posts check on Postal Inspector to ensure that the surprise call point check (see (C) above) is properly conducted • frequency of checking: <ul style="list-style-type: none"> — Superintendent of Posts: not less than one Postal Inspector every two weeks — Manager: not less than one Postal Inspector each month

Source: HKP records

4.15 Audit visited six offices in July and August 2015 and examined the inspection records (for 2014-15) of supervisory measures described in Table 15. Audit noted that the number of checks conducted by the responsible officers was less frequent than required in respect of vehicles deployed to Motorised Delivery Beat and Speedpost/Parcel Team (see Table 16).

Table 16

**Results of Audit examination of inspection records for vehicles
deployed to Motorised Delivery Beat and Speedpost/Parcel Team
(2014-15)**

Office	No. of HKP's vehicle	Surprise call point check (see item (C) of Table 15)	Superior spot check (see item (D) of Table 15)
A	13	291 (93%) of the required 312 checks not conducted	The Superintendent of Posts did not meet the Postal Inspector at the check point (see item (D) of Table 15 in para. 4.14). No superior spot check was conducted by the Manager.
B	4	In order	4 (15%) of the required 26 checks not conducted
C	2	47 (98%) of the required 48 checks not conducted	No evidence of checking
D	6	In order	In order

Source: Audit analysis of HKP records

Remarks: Audit observations on checking of hired vehicles by these offices are reported in paragraph 4.28.

Management of postal vehicles

4.16 In response to Audit's enquiry in August 2015, one office explained that given the staff constraints (two Postal Inspectors, one Superintendent of Posts and one Manager) and the number of vehicles available to perform various checks was small, it was difficult to comply with the required frequency. Furthermore, due to the wide service areas of each team and pre-scheduled daily route was impossible because of the nature of Speedpost service, it was sometimes difficult to meet the team at the selected call point, making the check in vain (Note 40).

4.17 Audit considers that the HKP needs to tighten supervisory checking to ensure that HKP's supervisory measures are complied with. For Speedpost Operations Centres and Hubs, the HKP needs to explore efficient and effective means of monitoring the Speedpost/Parcel Teams and the vehicles provided to them, such as using Global Positioning System tracking device, to ensure the proper use of vehicles and the proper performance of the teams.

Audit recommendations

4.18 **Audit has recommended that the Postmaster General should:**

- (a) **ensure that the use of HKP's vehicles instead of hired vehicles is fully justified (e.g. by cost-benefit analysis) when procuring new vehicles for mail transportation;**
- (b) **review the methodology used and the accuracy of the pre-determined factors (e.g. loading/unloading time) in the calculation of the utilisation rate of HKP's vehicles;**
- (c) **closely monitor the utilisation of the HKP's vehicles (particularly those with low utilisation rates) and take effective actions to optimise their usage; and**

Note 40: *Audit noted that in 2014-15, six surprise call point checks were in vain due to failure to meet the teams at the selected check points, and in all 24 superior spot checks conducted, the Superintendent of Posts failed to meet the Postal Inspectors at selected check points.*

- (d) **explore efficient and effective means of monitoring the Speedpost/Parcel Teams and the vehicles provided to them (e.g. using Global Positioning System tracking device) to ensure proper use of vehicles and proper performance of the teams.**

Response from the Government

4.19 The Postmaster General agrees with the audit recommendations. She has said that:

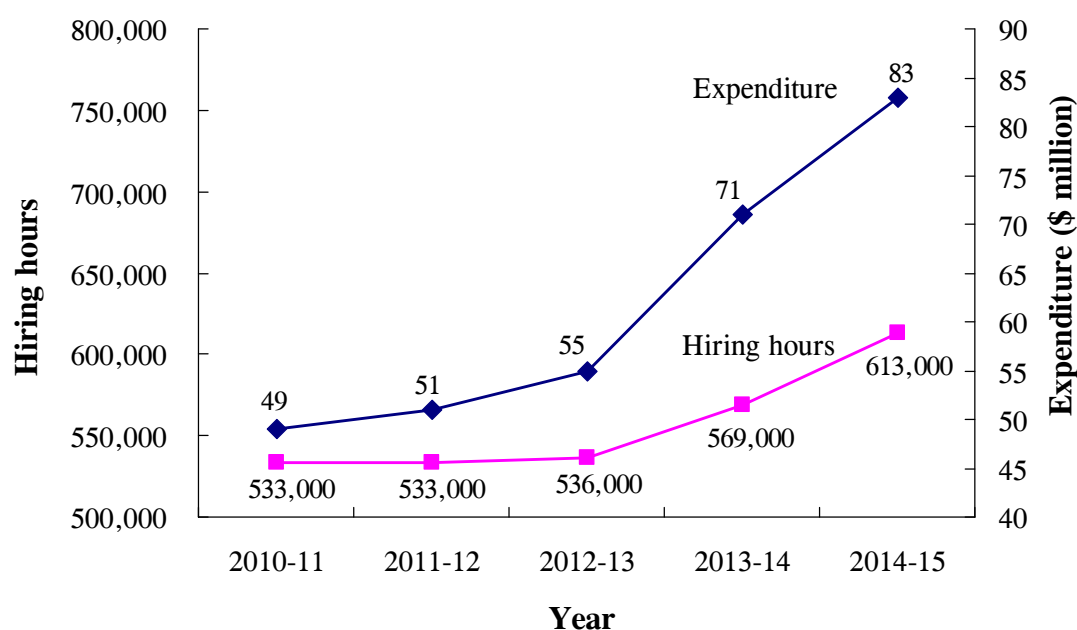
- (a) the HKP will continue to exercise prudence when considering the purchase of departmental vehicles in order to ensure that such purchase is fully justified. In May 2015, the HKP revised its Departmental Rule 176(c), requiring the conduct of a cost-benefit analysis for all capital projects, including procurement of vehicles, before seeking internal funding approval;
- (b) the HKP will review the methodology of calculating the utilisation rate of departmental vehicles. In particular, it will validate the parameters to be adopted for the formula in order to realistically reflect the prevailing operational conditions. In addition, the HKP will put in place a mechanism to ensure that the calculation methodology is kept in step with future changes to operational conditions. The HKP will closely monitor the utilisation of its vehicle fleet and take effective action to optimise the usage; and
- (c) in addition to stepping up enforcement of the existing mechanism for control of outdoor duties, the HKP is exploring efficient and effective means to enhance performance monitoring of the Speedpost/Parcel Teams and the vehicles provided to them (including exploring the feasibility and effectiveness of information technology solutions such as Global Positioning System tracking device) to ensure proper management of these teams and their vehicle fleet.

Management of hired vehicles

4.20 As at 31 March 2015, the HKP hired some 350 vehicles (some 250 light goods vehicles and some 100 trucks) under 16 contracts awarded to four contractors. The expenditure on hired vehicles increased by 69% from \$49 million in 2010-11 to \$83 million in 2014-15, while the hiring hours only increased by 15% from 533,000 hours in 2010-11 to 613,000 hours in 2014-15 (see Figure 9).

Figure 9

Expenditure and hiring hours for hired vehicles



Source: HKP records

4.21 In response to Audit's enquiry, the HKP informed Audit in September 2015 that the increase in hired vehicle expenditure was a compound effect of price increase (e.g. inflation) as well as an increase in hiring hours. In regard to the sharp increase in 2013-14, it was due to:

- (a) contract prices increased following the increase of Statutory Minimum Wage in May 2013;

- (b) additional hired vehicle hours were required for the migration of the International Mail Centre and GPO sorting office to the CMC, and for supporting additional collection and delivery teams of Speedpost Centres, etc.; and
- (c) following the adoption of the recommendations of the GLD's transport review, the HKP replaced six departmental vehicles with hired vehicles.

Reliance on a few contractors

4.22 As at 31 March 2015, there were 16 hired vehicle contracts, of which 15 contracts were awarded to three contractors (involving 328 vehicles). Similarly, for the preceding 16 contracts (commenced in the period December 2010 to August 2013), 13 contracts were awarded to two contractors (involving 236 vehicles).

4.23 Audit examination of the tendering records indicated that in the tendering exercises conducted in 2013 to 2015, there were only a limited number of tenderers. Audit also noted that the minimum number of vehicles required in each contract ranged from 20 to 38 for light goods vehicles, and ranged from 2 to 34 for trucks. Many tenderers failed to conform with the tender requirements because they failed to meet the minimum number of vehicles requirement.

4.24 The Independent Commission Against Corruption and the GLD Tender Board had expressed concern on the small number of bidders. In October 2013, the Commission recommended that the HKP should conduct market research against its service requirements and take actions (e.g. splitting the contracts into smaller ones so that more contractors would be able to meet the requirements) with a view to ensuring adequate market players capable of taking part in HKP's tender or quotation exercises. In February 2014, the GLD Tender Board (in approving the acceptance of offers for the provision of 38 and 29 light goods vehicles in Hong Kong Region and New Territories Region respectively) suggested that the HKP should review the tender requirements in view of the small number of conforming tenderers to ensure that they were not overly demanding and consider relaxing the requirements with a view to enhancing tender participation and competition.

Management of postal vehicles

4.25 In June 2015, the HKP conducted a review on the service contract for hiring of trucks for the mail processing centres. Regarding the reasons for few tenderers to make offer in the tendering exercises, the HKP collected information from the market. The main reasons included the contract scale being too large (i.e. the companies did not have the capacity to offer the required number of vehicles over a long contractual period of two years) and some restrictions (such as the height of vehicles should be under 3.2 metres) being difficult to comply with. As one of the service contracts for provision of trucks would expire in October 2015, the HKP relaxed the height restriction in the tendering exercise. However, the HKP did not split the service contract into smaller ones for reasons of inflexibility in vehicles deployment and operational difficulty.

4.26 In response to Audit's enquiry, the HKP informed Audit in September 2015 that:

- (a) the HKP shared the objective of encouraging market participation and market competition in its procurement of hired vehicle service in order to achieve better value for money, and had been taking action in this direction in its recent hired vehicle procurement exercises;
- (b) following the recommendations of the GLD Tender Board and the Independent Commission Against Corruption, the HKP had revised a number of tender specifications in the tendering exercise for the 2-year contract from 2015 to 2017 to encourage market participation and market competition. These changes included relaxing the age of hired vehicles from 7 to 8 years and vehicles of the same contractor may be used in different contracts subject to HKP's agreement; and
- (c) the current service items had been determined having regard to the need to optimise operational efficiency.

4.27 Competition is a reliable safeguard against bidders overcharging and helps secure value for money in government procurement. The HKP needs to closely monitor the extent of competition in its procurement of hired vehicles, and where necessary, take effective action to promote competition including further relaxing tender requirements or splitting contracts.

Lack of or insufficient checking on delivery beat

4.28 For hired vehicles provided to postmen for mail delivery duties in remote/scattered area or Speedpost despatch and collection service, the hired vehicles and the postman beat are subject to surprise call point checks and superior spot checks (see items (C) and (D) in Table 15 in para. 4.14). For the three offices visited by Audit which deployed hired vehicles to perform these delivery services, Audit noted that the number of checking (Note 41) conducted by the responsible officers was less frequent than required. Audit considers that the HKP needs to ensure that sufficient surprise call point checks and superior spot checks are conducted.

Audit recommendations

4.29 **Audit has recommended that the Postmaster General should:**

- (a) **closely monitor the extent of competition in the HKP's procurement of hired vehicles, and where necessary, take effective action to promote competition including further relaxing tender requirements or splitting contracts; and**

Note 41: *Audit examination of the inspection records (for 2014-15) of the three offices revealed that:*

- (a) *for Office A, 249 (94%) of the required 264 surprise call point checks were not conducted. No superior spot check was conducted by the Manager;*
- (b) *for Office C, 119 (99%) of the required 120 surprise call point checks were not conducted. No superior spot check was conducted by the Superintendent of Posts; and*
- (c) *for Office D, 2 (33%) of the required 6 surprise call point checks were not conducted.*

Management of postal vehicles

- (b) **ensure that sufficient surprise call point checks and superior spot checks are conducted on hired vehicles.**

Response from the Government

4.30 The Postmaster General agrees with the audit recommendations. She has said that:

- (a) the HKP will continue to closely monitor the extent of competition in the procurement of hired vehicle service and, where appropriate and feasible, further promote market participation and market competition (e.g. by further relaxing the tender requirements or splitting the contracts); and
- (b) the HKP will step up performance management of its hired vehicle contractors. The HKP will ensure that sufficient surprise call point checks and superior spot checks are conducted for hired vehicles deployed for motorised delivery beats in accordance with the prevailing beat patrol mechanism. For other types of hired vehicles, the HKP will ensure that supervisory snap checks are conducted, supplemented by additional inspection (e.g. regular inspection of vehicle log sheets and records in the eTick Sheet System) at stipulated intervals, as required under the control mechanism.

PART 5: MANAGEMENT OF CENTRAL MAIL CENTRE AND GENERAL POST OFFICE BUILDING

5.1 This PART examines the management of the CMC and the GPO Building. Audit has found scope for improvement in the following areas:

- (a) management issues of the CMC (paras. 5.2 to 5.14); and
- (b) reprovision of the GPO Building (paras. 5.15 to 5.21).

Central Mail Centre

5.2 The CMC (see Photograph 3) of the HKP is located at Wang Chin Street, Kowloon Bay. It is a six-storey building with a net operational floor area (NOFA) of 21,080 square metres (m²). The CMC is an integrated mail sorting centre which houses the International Mail Centre (IMC) previously located in Hung Hom and the sorting centre previously located at the GPO Building (Note 42). Figure 10 shows the usage of various floors of the CMC.

Note 42: *Before the setting up of the CMC, mail sorting was carried out both at the IMC and the GPO Building. The IMC was located at the south of the proposed Hung Hom Station of the Shatin to Central Link. To facilitate the construction of the Shatin to Central Link, the IMC had to be demolished and relocated to the CMC with a NOFA of 13,480 m² on a “one-to-one replacement” basis. To optimise utilisation of the CMC site (involving an expanded area of 7,600 m² that could be made available), the HKP took the opportunity to relocate the sorting centre of the GPO Building to the CMC to improve operational efficiency and to facilitate the future reprovisioning of the GPO Building.*

Photograph 3

CMC



Source: Photograph taken by Audit on 8 September 2015

Photograph 4

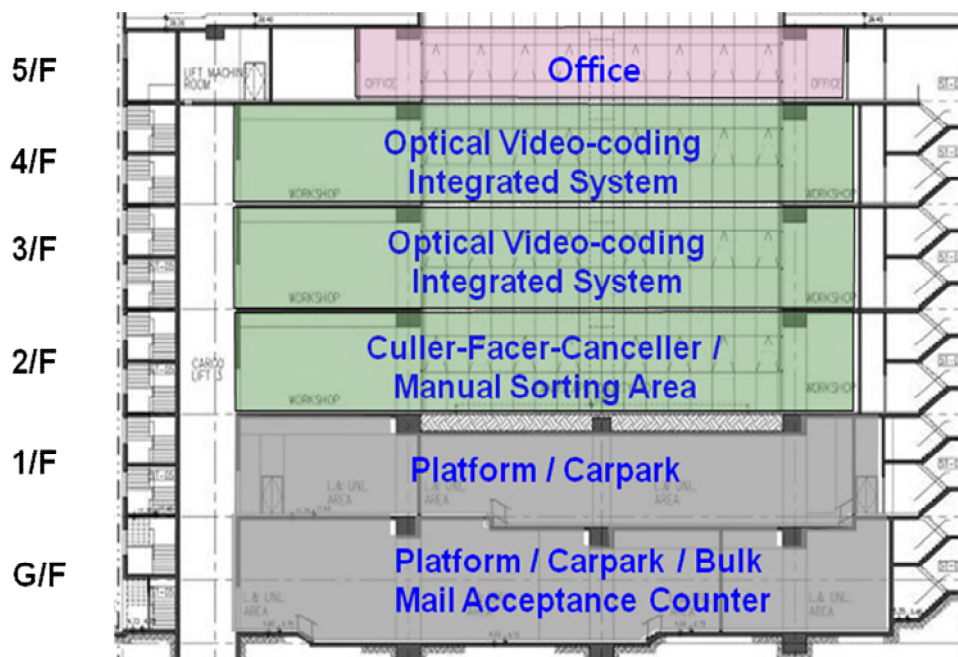
Optical Video-coding Integrated System



Source: HKP records

Figure 10

Usage of various floors of CMC



Source: HKP records

Remarks: Culler-Facer-Canceller segregates (i.e. culls) mail items according to their size/thickness and whether they are local or international. It also cancels postage stamps on letters after arranging them to face the correct way. Optical Video-coding Integrated System uses optical character recognition technology to scan the addresses on letters and sort the letters according to postman delivery beats (see Photograph 4).

5.3 Construction work of the CMC commenced in July 2011 and was completed in July 2013. Mail sorting facilities were migrated from the IMC and the GPO Building to the CMC in phases starting from December 2013. The CMC has been in full operation since November 2014. The project was completed on time. Up to 31 March 2015, the total expenditure of the CMC project was \$931 million. The project accounts were not yet closed as at September 2015.

Vetting of CMC accommodations

5.4 The Accommodation Regulations of the Government set out the policy and guiding principles on government accommodation and related matters for government bureaux/departments (B/Ds). According to the Accommodation Regulations (Regulation 312 and Annex IV (Part One)), the user B/D of a Specialist/Departmental Building has to prepare a Schedule of Accommodation (SoA) for the approval by the Property Vetting Committee (PVC — Note 43). After the approval of SoA, if the NOFA of any individual item varies by more than 10% from the approved NOFA or the total NOFA varies by more than 5% from the approved area, the user B/D should re-submit the SoA to the PVC for further approval. The CMC is a Specialist/Departmental Building and its SoA requires PVC's approval (Note 44).

Variations to SoA not submitted to PVC for approval

5.5 The SoA of the CMC (summarised at Appendix C) was approved by the PVC in June 2010. In its approval, the PVC noted the funding arrangement of the CMC (Note 45) and said that:

- (a) the Postmaster General had the authority to decide on the space and fitting requirements for new and reprovisioned offices; and
- (b) should there be any subsequent variations to the approved SoA, the HKP should act in accordance with the Accommodation Regulation 312.

Note 43: *The PVC is the approving authority under the Accommodation Regulations to vet and approve SoAs of Specialist/Departmental Buildings. It is chaired by an Assistant Director of the Architectural Services Department and comprises representatives from the Financial Services and the Treasury Bureau and the Government Property Agency as members.*

Note 44: *According to the PVC, as the major part of the CMC was funded under the Public Works Programme (by the Capital Works Reserve Fund), PVC's vetting of the SoA was required.*

Note 45: *The Government funded the reprovision of 13,480 m² of the IMC under the "one-to-one replacement" principle (see Note 42 to para. 5.2). For the expanded area of 7,600 m², it was funded by the POTF. The funding arrangement was approved by the Finance Committee of the Legislative Council in February 2011. The budget of the CMC project was \$1,701 million.*

Management of Central Mail Centre and General Post Office Building

5.6 The PVC had not specified in detail the circumstances under which the Postmaster General could decide on the space and fitting requirements or approval on variations to SoA had to be obtained from the PVC. Audit noted that as at May 2015 accommodations were provided for some divisions/sections not listed on the approved SoA of June 2010, for example:

- (a) Planning and Development Division (251 m²) (since September 2014);
- (b) Retail Business Division (241 m²) (since August 2013); and
- (c) Inward Registered Section (70 m²) (since May 2014).

5.7 In response to Audit's enquiry on the variations to the SoA, the HKP conducted a review on the SoA of the CMC and found that, although there was no significant variation on the total NOFA, there were variations exceeding 10% in 38 individual items (increase in 16 items and decrease in 22 items). In July 2015, the PVC informed the HKP that approval was required only for items which were reprovisioned from the IMC to the CMC on the basis of "one-to-one replacement" and funded under the Public Works Programme.

5.8 In August 2015, the PVC asked the Government Property Agency (GPA) to follow up on this matter. In September 2015, the GPA advised the HKP that there were two items involving area variations of more than 10% (Note 46) which required the PVC's approval. The HKP informed the GPA in the same month that the variations were due to site constraints. The GPA advised the HKP on 12 October 2015 that it had no objection to the changes in the areas of the two items.

Note 46: *The two items were: (a) a cleaner's storage room on mezzanine floor (the floor area had increased from 2.8 m² to 4.7 m²); and (b) Dead Letter Office on the fifth floor (the floor area had decreased from 220 m² to 189 m²).*

Management of Central Mail Centre and General Post Office Building

Provision of office space at CMC

5.9 The fifth floor of the CMC is mainly for office use (see Figure 10 in para. 5.2). It has a NOFA of 2,302 m². Details of the main usage are as follows:

- (a) 881 m²: office for the Mail Processing Division, Planning and Development Division and Retail Business Division. For these three Divisions, there are 20 cellular offices and open plan for 98 staff;
- (b) 267 m²: one conference room and two meeting rooms; and
- (c) 1,154 m²: other facilities such as staff rest rooms, workshop and store rooms.

5.10 Audit's site inspection in July 2015 revealed that nearly half (some 300 m²) of the open plan area (see para. 5.9(a)) was not in use (see Photographs 5 and 6 as examples), involving 46 work stations.

Photograph 5

Open plan of Mail Processing Division



Source: Photograph taken by Audit on 23 July 2015

Photograph 6

Open plan of Mail Processing Division



Source: Photograph taken by Audit on 23 July 2015

5.11 In response to Audit's enquiry, the HKP informed Audit in September and October 2015 that the open plan office area on the fifth floor fell within the expansion area of 7,600 m². For the 46 vacant work stations identified by Audit in July 2015, the HKP said that:

- (a) 14 work stations were intended for use by record staff of various operation units of the CMC and some supervisory staff. Some of these positions were vacant and recruitment was underway. The HKP expected that those 14 work stations would be occupied in 2016-17 (Note 47). Another two work stations were reserved for two vacant posts currently under review;

Note 47: *According to the HKP, four of the 14 posts involved were expected to be filled by 2016-17. The incumbents of the remaining 10 posts were temporarily stationed on other floors of the CMC in under-provided accommodation, and would be relocated to the fifth floor when the full team was in place.*

Management of Central Mail Centre and General Post Office Building

- (b) eight work stations would be taken up by staff of the Information System Services Division by December 2015 and two work stations were taken up by the staff of the Management Services Division. Six work stations were for use by staff of other Division/Sections/Offices who needed to work at the CMC from time to time;
- (c) five work stations were reserved for handling extra mail items during seasonal peaks;
- (d) five work stations were intended to meet future growth; and
- (e) four work stations were reserved for the project team of the reprovision of the GPO Building (see paras. 5.15 to 5.18).

5.12 Audit noted the HKP's planned usage of the identified vacant work stations. Audit considers that the HKP needs to closely monitor the usage to avoid these work stations being left vacant for a prolonged period.

Audit recommendations

5.13 **Audit has *recommended* that the Postmaster General should:**

- (a) **ensure that in future changes to accommodations reprovisioned from the IMC to the CMC are approved by the PVC in a timely manner; and**
- (b) **monitor the usage of work stations at the office area of the CMC to avoid prolonged vacancy.**

Response from the Government

5.14 The Postmaster General agrees with the audit recommendations. She has said that the HKP will ensure that it will seek the PVC's timely approval of future changes to accommodation reprovisioned from the IMC to the CMC. The HKP will also ensure that the work stations on the fifth floor of the CMC are put to gainful use as planned to meet the HKP's operational needs.

Reprovision of the GPO Building

5.15 The GPO Building is located at Connaught Place, Central (see Photograph 7). It is an eight-storey building providing accommodations for the GPO (counters, post office boxes and DO), Speedpost Section and HKP's Headquarters and various divisions (e.g. the External Affairs Division and the Financial Services Division). The Building was commissioned in 1976.

Photograph 7

GPO Building



Source: Photograph taken by Audit on 5 September 2015

5.16 The site area occupied by the GPO Building is 3,900 m². The Government started planning for the relocation of the GPO Building as early as in May 1985 after the expiry of a lease condition that restricted the height of the GPO site (Note 48). In the Director of Audit's Report No. 31 issued in October 1998, Audit reported on the Government's slow progress in the redevelopment of the GPO site to maximise its development potential.

Note 48: *In May 1970, in connection with the sale of the land lot to a private developer for building the Jardine House (which is adjacent to the GPO Building), the Government agreed with the lessee that for a period of 15 years from 1 June 1970, no part of any building erected between the land lot and the Victoria Harbour waterfront should have a height exceeding 36.6 metres.*

Latest developments

5.17 In the 2014 Policy Address, the Government announced that it would launch the development of Site 3 under the Urban Design Study for the New Central Harbourfront (Note 49) as soon as possible to increase the floor area of office and retail space in the core business district. In order for Site 3 to be developed in accordance to the Study's recommendations, the GPO Building now located at the southern part of Site 3 has to be reprovisioned. After taking into account the HKP's operational requirements, some district-tied facilities including the GPO counters and post office boxes, DO, Speedpost Section, etc., will be reprovisioned within the future development of Site 3, whereas the HKP's Headquarters and other divisions are being planned to be reprovisioned to a site in another district. The Government will fund the GPO reprovisioning project on a "square metre for square metre cost-neutral" basis.

5.18 Some 30 years have lapsed since the Government started planning for the relocation of the GPO Building and the GPO site has yet to be redeveloped (see para. 5.16). In response to Audit's enquiry, the HKP informed Audit that the project approach and programme for the reprovisioning of the GPO Building had been subject to the overall planning process of the New Central Harbourfront, the availability of sites for reprovisioning and the operational requirements of the HKP. The HKP had been working closely with the relevant B/Ds all along (e.g. on the identification of reprovisioning sites and the timing of vacating the existing GPO site), and had been making its best endeavour to take forward those tasks falling within its purview in support of the Government's overall project objective and project programme.

Note 49: *In 2007, the Planning Department commissioned the Urban Design Study for the New Central Harbourfront to refine the urban design framework and prepare planning/design briefs for eight key sites in the New Central Harbourfront. Site 3 is one of the key sites and it is located at the north of Statue Square.*

Need to utilise the available space at GPO Building

5.19 The GPO Building has a NOFA of 14,210 m². Following the relocation of the GPO sorting centre to the CMC (see Note 42 to para. 5.2), the HKP reprovisioned the Air Registered Section of the IMC and the Stamps and Philately Division to the GPO Building in May 2014 and May 2015 respectively (Note 50). Nevertheless, as at September 2015, the GPO Building has some 2,060 m² vacant space. Given that it could take several years before vacating the GPO Building, the HKP needs to monitor the usage of space at the GPO Building with a view to putting it into gainful use (e.g. by exploring the feasibility of relocating outstation offices to the GPO Building). In this regard, the HKP informed Audit in September 2015 that for the vacant area of the GPO Building:

- (a) some 880 m² was mainly used for staff passage and temporary storage of mail and could not be put to better alternative use;
- (b) some 710 m² was reserved for the Air Registered Section of the AMC. However, the relocation of the Section was deferred from early 2015 to early 2016 due to urgent building safety works at the GPO Building, which were targeted for completion in early 2016; and
- (c) for the remaining 470 m² (including 370 m² of ex-canteen — Note 51), the HKP planned to use it for office and storage purpose in early 2016 after the completion of building safety works.

Note 50: *The HKP informed Audit in October 2015 that it had formulated a plan to utilise the vacated space after the relocation the GPO sorting centre to the CMC. The HKP reprovisioned the Air Registered Section of the IMC as planned. In October 2014, upon receipt of an unexpected notice of non-renewal of the tenancy from the landlord of the premises which housed the Stamps and Philately Division, the HKP promptly adjusted the accommodation plan for the vacated space in the GPO Building and reprovisioned the Division to the GPO Building in May 2015 in order to achieve substantial rental savings.*

Note 51: *According to the HKP, it has changed the area reserved for canteen purpose to office use after three unsuccessful tender exercises in 2014 to find an operator for the canteen.*

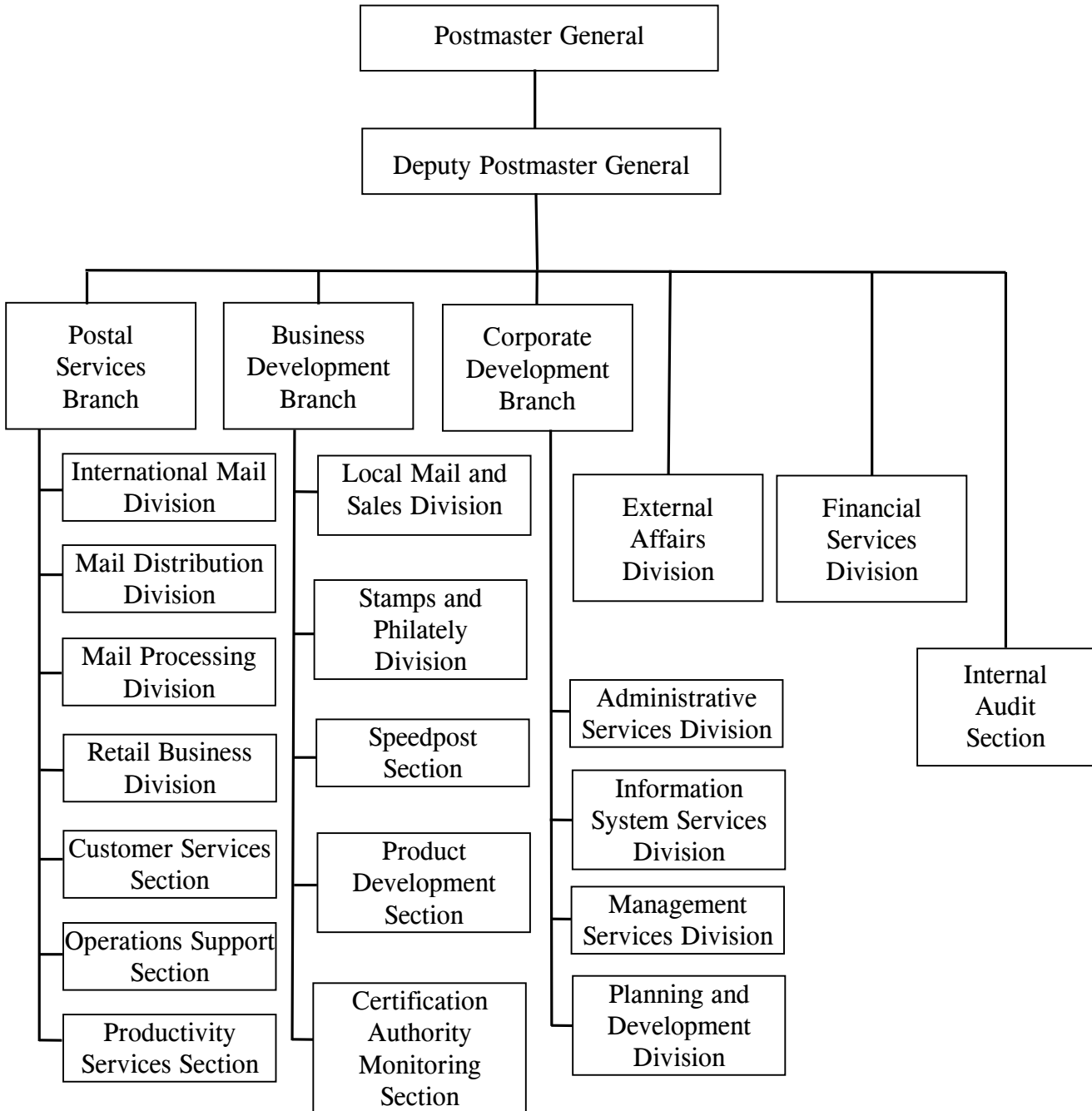
Audit recommendations

- 5.20 **Audit has *recommended* that the Postmaster General should:**
- (a) **in collaboration with the relevant government B/Ds, take appropriate measures to facilitate the Government’s project for the reprovisioning of the GPO Building; and**
 - (b) **monitor the usage of space at the GPO Building with a view to putting it into gainful use before its reprovisioning.**

Response from the Government

5.21 The Postmaster General agrees with the audit recommendations. She has said that the reprovisioning of the GPO Building is necessitated by the New Central Harbourfront project. The HKP has all along been working closely with relevant government B/Ds to facilitate the reprovisioning project by taking timely action on those tasks falling within its purview. The HKP will continue with such collaboration.

**Hongkong Post
Organisation chart
(31 August 2015)**



Source: HKP records

**Mail traffic by mail category
(2014-15)**

Mail category	Number of mail items (million)
(a) Local	1,038
(b) International	
• outward air	137
• outward surface	12
• inward air	22
• inward surface	3
Total for international mail	174
Total = (a) + (b)	1,212

Source: Audit analysis of HKP records

**SoA of CMC approved by PVC in June 2010
(summarised by function)**

Function	Facilities/usage	NOFA (m²)	
Mail processing operation	Optical Video-coding Integrated Systems (12 sets)	8,740	
	Culler-Facer-Cancellers (three sets)	870	
	Manual segregation area	3,700	
	Loading/unloading platform	2,940	
	Video-coding desks	258	
	Storage	390	
	Other operations	384	
	Sub-total		
Supporting	Office area	1,109	
	Electrical and mechanical office, store and workshop	372	
	Building Maintenance Office	70	
	Training room	100	
	Conference rooms (two)	90	
	Interview rooms (four)	31	
	Canteen	162	
	Security area	75	
	Pantries, rest rooms and outdoor sitting area	243	
	Server rooms (two)	259	
	Storage area	266	
	Sub-total		
Other services	Dead Letter Offices (two)	369	
	Registered Letter Office	260	
	Local Consignment Office	135	
	Bank mail handling	95	
	Other operation offices	162	
	Sub-total		
Total			21,080

Source: Audit analysis of HKP records

Acronyms and abbreviations

AMC	Air Mail Centre
Audit	Audit Commission
B/Ds	Bureaux/departments
BST	Beat Survey Team
CMC	Central Mail Centre
CSB	Civil Service Bureau
CSRs	Civil Service Regulations
DOs	Delivery offices
DPM	Delivery postman/postmen
GLD	Government Logistics Department
GPA	Government Property Agency
GPO	General Post Office
HKP	Hongkong Post
IMC	International Mail Centre
m ²	Square metres
MDD	Mail Distribution Division
NCSC	Non-civil-service contract
NOFA	Net operational floor area
OTA	Overtime allowance
POTF	Post Office Trading Fund
PVC	Property Vetting Committee
SoA	Schedule of Accommodation
SPRs	Stores and Procurement Regulations
TOIL	Time-off in lieu

CHAPTER 6

Security Bureau

Efforts of the Narcotics Division and Beat Drugs Fund in combating drug abuse

**Audit Commission
Hong Kong
27 October 2015**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 65 of the Director of Audit contains 10 Chapters which are available on our website at <http://www.aud.gov.hk>

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EFFORTS OF THE NARCOTICS DIVISION AND BEAT DRUGS FUND IN COMBATING DRUG ABUSE

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EFFORTS OF THE NARCOTICS DIVISION AND BEAT DRUGS FUND IN COMBATING DRUG ABUSE

Executive Summary

1. The Narcotics Division (ND) of the Security Bureau is responsible for coordinating policies and measures across the public sector, non-governmental organisations (NGOs) and the community to combat the drug abuse problem. To promote community efforts to beat drugs, the Government established the Beat Drugs Fund (BDF) in March 1996 with a capital outlay of \$350 million to generate investment income for financing anti-drug projects. In May 2010, the Legislative Council (LegCo) Finance Committee approved an injection of \$3 billion into the BDF to generate an enhanced level of funding for supporting sustained anti-drug efforts. The BDF is administered by the Governing Committee of the Beat Drugs Fund Association (BDFFA) with secretariat support provided by the ND. As at 31 March 2015, the ND had a strength of 32 staff. The estimated expenditure of the ND's anti-drug work (excluding staff costs) for 2015-16 was about \$20 million. The Audit Commission (Audit) has recently conducted a review of the ND's work in combating drug abuse, including the administration of the BDF, with a view to identifying room for improvement.

Anti-drug work of the ND

2. *Worsening hidden drug abuse problem.* Over the past ten years, the number of reported drug abusers decreased by 37% from 14,115 in 2005 to 8,926 in 2014. However, the hidden drug abuse problem has worsened since 2007 as the median length of drug abusing experience of newly reported abusers increased from 1.7 years in 2007 to 5.2 years in 2014. The situation was more serious for drug abusers aged 21 and above who had a median length of drug abusing experience of 7.2 years in 2014. The proportion of young adults (aged 21 to 35) represented 55% of the newly reported drug abusers in 2014. This young adult group is mostly outside the reach of the school network. Since 2007, the number of psychotropic substance abusers has exceeded the number of narcotics drugs abusers. Prolonged abuse of psychotropic substances may lead to various long-term and irreversible

Executive Summary

damages to bodily functions. The ND needs to formulate further strategies to address the hidden drug abuse problem (paras. 1.9, 2.2, 2.8 and 2.21).

3. *Need to enhance measures to tackle hidden drug abuse problem.* The ND had since the 2011/12 school year launched the Healthy School Programme with a Drug Testing Component (HSP(DT)) to help motivate local secondary school students troubled by drugs to seek assistance and treatment. In 2015/16, the number of local secondary schools participated in the HSP(DT) was 92, representing only 19% of the total 479 local secondary schools. From 2011/12 to 2014/15, the overall proportion of students joining the voluntary drug testing dropped from 48% to 43%. There is a need to enhance the HSP(DT). In 2013-14, a public consultation exercise was conducted on introducing the RESCUE Drug Testing Scheme (RDT), aiming to provide an additional measure to identify drug abusers and refer them to counselling programmes in a timely manner. In 2014-15, the ND informed LegCo that there was a need to explore possible options to resolve controversial issues surrounding the RDT (paras. 2.7(a) and (b), 2.13(a), 2.14(a) and 2.16).

4. *Need to collect more comprehensive drug abuse information.* The Central Registry of Drug Abuse (CRDA) was established under the Dangerous Drugs Ordinance (DDO — Cap. 134) to provide drug abuse statistics for monitoring changes in drug abuse trends and characteristics of drug abusers to facilitate the planning of anti-drug strategies and programmes. Through a voluntary reporting system, information of drug abusers is provided to the CRDA by reporting agencies with data confidentiality statutorily protected under the DDO. During the four-year period from 2011 to 2014, 39 (54%) of the 72 reporting agencies had not reported any cases. According to the non-identifying information (i.e. without personal identity) collected by the ND, in 2013, information on 1,055 drug abusers was not reported to the CRDA. The ND also conducts student surveys once every three years to collect information on drug use by students at upper primary, secondary and post-secondary levels. From 2008/09 to 2014/15, the participation rates of all types of schools were generally declining. In particular, only 4% to 14% of international primary schools participated in the surveys, which might have adversely affected the representativeness of the survey results. There is a need to expedite the work on collecting more comprehensive data about the drug abuse population in Hong Kong (paras. 1.8, 2.26, 2.28, 2.31 and 2.35).

Executive Summary

5. *Need to improve preventive education and publicity programmes.* According to the ND, preventive education and publicity is the mainstay of the demand reduction efforts and the very first line of defence in the war against drug abuse. The ND has commissioned a number of NGOs to provide anti-drug education programmes for students and training programmes for teachers. The Task Force on Youth Drug Abuse in 2008 recommended that the education and teacher training programmes should cover their corresponding target schools in three years and five years respectively as far as possible. While 526 (88%) of the 598 target schools for the education programmes were reached in the four-year period from 2010/11 to 2013/14, only 427 (42%) of the 1,011 target schools for the teacher training programmes were reached in the six-year period from 2008/09 to 2013/14. During the respective periods, the numbers of schools, students and teachers reached under the education and training programmes were generally declining (paras. 2.40 to 2.43).

Management of the BDF

6. *Need to review declaration of interests and performance reporting.* The BDFA is responsible for overseeing the administration of the BDF with a fund balance of \$4.3 billion as at 31 March 2015 and approval of grants averaging \$80 million a year. There is a need to review the adequacy of adopting the one-tier reporting system for declaration of interests, which only requires a member of the Governing Committee to declare a conflict of interest as and when it arises. To help enhance performance, transparency and accountability, consideration should be given to developing performance measurements for the BDF and reporting its financial position and operation to LegCo (paras. 3.4 to 3.6).

7. *Need to make better use of the BDF funding schemes.* Under the Regular Funding Scheme, the BDF supports community-driven anti-drug activities in the areas of preventive education and publicity, treatment and rehabilitation, and research. Through the Special Funding Scheme, financial assistance is provided to the Drug Dependent Persons Treatment and Rehabilitation Centres (DTRCs) to carry out capital works for meeting the licensing requirements and enhancing their service capacity. While the government injection of \$3 billion into the BDF was made in 2010 for giving more financial support to anti-drug projects, from 2010 to 2014, the number of annual applications under the Regular Funding Scheme decreased from 349 to 54. The amount of approved funding of \$42 million in 2014 only constituted 6% of the \$682 million available for funding projects in that year. Of the 59 priority areas set in the funding exercises from 2010 to 2014 for soliciting

Executive Summary

projects to address the prevailing drug abuse trend, there were no approved projects for 10 (17%) priority areas. For the Special Funding Scheme, from January 2010 to June 2015, only six DTRCs had obtained funding of \$114.1 million under five projects to carry out capital works. As the BDF is a key vehicle for the Government to support anti-drug work initiated or undertaken by community partners, there is a need to appeal to their support in making better use of the BDF funding schemes in the anti-drug cause (paras. 1.7(b), 3.11 to 3.13, 3.16 and 5.4).

Administration of BDF projects

8. *Areas for improvement in administration of Regular Funding Scheme projects.* In 2010, the ND introduced measures to enhance monitoring of projects funded under the Regular Funding Scheme. However, Audit has found that there is room for improvement in the timeliness of submission of progress reports, final reports and auditors' reports by grantees. In light of the decreasing number of applications from 2010 to 2014, there is a need to encourage potential applicants to propose more worthy projects. In line with good management practices, consideration should be given to developing a marking scheme to facilitate the assessment of applications and notifying the unsuccessful applicants the reasons for the decisions to help them make improvement in their future project proposals (paras. 4.14, 4.16, 4.17 and 4.19(a)).

9. *Areas for improvement in administration of Special Funding Scheme projects.* For a works project funded under the Special Funding Scheme, it is common that the grantee will appoint an authorised person to conduct a technical feasibility study before seeking funding from the BDF. At present, the grantee, with prior approval of the BDFA, is allowed to retain the authorised person to perform the consultancy work on detailed designs and construction administration without going through another consultant selection process. There is a need to review this facilitation arrangement because it does not align with the government practice of ensuring fairness and competition in procurement. There is also a need to review the tendering requirement that grantees should obtain at least 10 tenders for capital works exceeding \$1 million. Such a requirement is more stringent than that applicable to government works projects and may not always be met in practice (paras. 4.24 and 4.25).

Executive Summary

Way forward

10. *Need to conduct an overall review of the BDF.* According to the report issued by the Task Force on Youth Drug Abuse in 2008, it is important to assess the overall effectiveness of the BDF. The last review of the BDF was conducted in 1999. With the lapse of time, it is opportune for the ND to conduct an overall review of the BDF with a view to evaluating its effectiveness, reviewing the allocation of resources and formulating future strategies for the BDF (para. 5.5).

Audit recommendations

11. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Commissioner for Narcotics should, in consultation with the Secretary for Education/the Governing Committee of the BDF (as appropriate):**

Anti-drug work of the ND

- (a) **formulate further strategies to tackle the hidden drug abuse problem taking into account the need to:**
 - (i) **make greater efforts to encourage school sponsoring bodies and secondary schools to participate in the HSP(DT) and take further steps to encourage students to participate in the voluntary drug testing (para. 2.23(b) and (c)); and**
 - (ii) **carry out further study on the RDT in consultation with interested parties on aspects of concern in drawing up detailed proposals for the RDT (para. 2.23(e));**
- (b) **strengthen ongoing efforts to encourage reporting agencies to report drug abuse information to the CRDA as far as possible and expedite the work on collecting more comprehensive data about the drug abuse population in Hong Kong (para. 2.36(a) and (b));**

Executive Summary

- (c) **consider engaging directly with schools not participating in the student surveys in working out ways to address their concerns and hence securing their collaboration in the surveys (para. 2.36(e));**
- (d) **take measures to ensure that more target schools of the education and training programmes are covered within a reasonable time frame, and closely monitor the effectiveness of the initiatives in promoting the participation in the programmes (para. 2.50(a) and (b));**

Management of the BDF

- (e) **review the adequacy of adopting the one-tier reporting system for declaration of interests for the Governing Committee and the performance measurement of the BDF, and consider tabling the annual financial statements and annual reports of the BDF in LegCo (para. 3.9(a), (c) and (d));**
- (f) **ascertain the reasons for the decrease in funding applications under the Regular Funding Scheme and strengthen efforts to encourage applicants to propose more worthy projects (para. 3.18(a) and (b));**
- (g) **continue to provide assistance for the DTRCs to upgrade and/or relocate their facilities under the Special Funding Scheme to meet the licensing standards (para. 3.18(d));**

Administration of BDF projects

- (h) **consider developing a marking scheme for vetting panel members to assess the project applications under the Regular Funding Scheme (para. 4.20(a));**
- (i) **consider taking regulatory actions against grantees in cases of serious delays in submission of their progress reports, final reports or auditors' reports in accordance with funding agreement provisions (para. 4.20(e));**

Executive Summary

- (j) **review the requirement on obtaining at least 10 tenders for works projects under the Special Funding Scheme and expedite action on the review of the facilitation arrangement (para. 4.27(a) and (b)); and**

Way forward

- (k) **conduct an overall review of the BDF with a view to evaluating its effectiveness, reviewing the allocation of resources and formulating future strategies for the BDF (para. 5.6(b)).**

Response from the Government

12. The Government generally agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 Drugs not only alter behaviour but also create physical and psychological dependence to varying degrees. Drug abusers may resort to crimes for resources to support the habit. They may eventually die of overdose. The Government attaches great importance to combating drug abuse, with priority accorded to youth drug abuse. The Narcotics Division (ND) of the Security Bureau (SB) is responsible for coordinating policies and measures across the public sector, non-governmental organisations (NGOs) and the community to combat the drug abuse problem. The Action Committee Against Narcotics (ACAN — Note 1) advises the Government on anti-drug strategies and activities.

Role of the ND

1.3 Headed by the Commissioner for Narcotics, the ND joins hands with the ACAN to combat the drug abuse problem through the Government's five-pronged strategy, as follows:

- (a) ***Law enforcement and legislation.*** The ND and relevant government bureaux/departments (B/Ds) closely monitor the changing drug scene and regularly review existing laws to meet any emerging threat and to enable the Hong Kong Police Force (HKPF) and the Customs and Excise Department to take effective enforcement actions against drug crimes;

Note 1: *The ACAN, chaired by a non-official, is a non-statutory body comprising 17 non-official members from the fields of social work, education, medicine and community service, and seven official members (the Director of the Central Narcotics Bureau of Singapore, the Commissioner for Narcotics and representatives from the Education Bureau, the Customs and Excise Department, the Department of Health, the Hong Kong Police Force and the Social Welfare Department).*

Introduction

- (b) ***Preventive education and publicity.*** The ND collaborates with relevant B/Ds, community partners and the NGOs to organise preventive education and publicity programmes to promote awareness of the drug issues in the community and to educate the public about the harm of drug abuse;
- (c) ***Treatment and rehabilitation.*** The ND, in consultation with stakeholders in relevant services, draws up successive Three-year Plans on Drug Treatment and Rehabilitation Services in Hong Kong (hereinafter referred to as Three-year Plans — Note 2), setting out the priorities and strategies on the services as a reference for service providers to review and develop their plans and programmes in light of the latest drug scene. The Plans also set out the drug trend and anti-drug initiatives;
- (d) ***Research.*** The ND coordinates drug-related research studies to facilitate the formulation of evidence-based anti-drug strategies and programmes; and
- (e) ***External cooperation.*** The ND and relevant law enforcement agencies (such as the HKPF and the Customs and Excise Department) maintain close partnership with their international and Mainland counterparts in fighting against drug abuse and drug trafficking activities. They participate actively in international and regional anti-drug meetings and seminars to monitor evolving drug scene at the international level.

According to the ND, the estimated government expenditure on major anti-drug activities under the five-pronged strategy for 2014-15 totalled \$983 million. As at 31 March 2015, the ND had a strength of 32 staff (Note 3). The estimated expenditure of the ND's anti-drug work (excluding staff costs) for 2015-16 was about \$20 million.

Note 2: *Since 1997, the ND has been playing a coordination and oversight role in the preparation and roll-out of the Three-year Plans.*

Note 3: *Apart from anti-drug activities, some staff are also responsible for relevant policy matters on anti-money laundering and counter-terrorist financing, and administrative and personnel matters related to the operation of the ND.*

Treatment and rehabilitation programmes

1.4 The Government and the NGOs provide various treatment and rehabilitation programmes for drug abusers with different needs. The Correctional Services Department operates three Drug Addiction Treatment Centres to provide compulsory treatment and rehabilitation services for people who are addicted to drugs and found guilty of offences punishable with imprisonment. Other services include:

- (a) counselling services and assistance for psychotropic substance abusers provided by 11 Counselling Centres for Psychotropic Substance Abusers under the subvention of the Social Welfare Department (SWD);
- (b) residential treatment and rehabilitation services for drug abusers provided by 39 Drug Dependent Persons Treatment and Rehabilitation Centres (DTRCs) operated by the NGOs, of which some are under the subvention of the Department of Health or the SWD;
- (c) medical treatment for drug abusers with psychiatric problems provided by eight Substance Abuse Clinics under the Hospital Authority; and
- (d) methadone treatment for opiate drug abusers in seven day-clinics and 13 evening-clinics provided by the Department of Health.

Beat Drugs Fund

1.5 *Establishment of the Beat Drugs Fund (BDF).* To promote community efforts to beat drugs, the Government established the BDF in March 1996 with a capital outlay of \$350 million which should be kept intact. Investment income generated from the BDF is used to finance anti-drug projects which complement the multi-faceted strategy adopted by the Government and the NGOs. The BDF is administered by the Governing Committee (Note 4) of the Beat Drugs Fund

Note 4: *The Governing Committee comprises the Permanent Secretary for Security as the Chairperson, five non-official members and four other official members (the Commissioner for Narcotics, the Director of Accounting Services, and representatives from the Education Bureau and the SWD).*

Introduction

Association (BDFA) which was incorporated under the Companies Ordinance (Cap. 32) in 1996 (Note 5). The ND provides secretariat support to the BDFA.

1.6 ***Injection into the BDF.*** In May 2010, the Legislative Council (LegCo) Finance Committee (FC) approved an injection of \$3 billion into the BDF to enlarge the capital base to enable an enhanced level of funding for supporting sustained anti-drug efforts of various organisations in the community. According to the FC paper:

- (a) the injection would be an indispensable measure for sustaining the anti-drug campaign on a community-wide level in the long run; and
- (b) an average annual investment return rate of about 4% to 5% in the long run might generate around \$134 million to \$168 million investment proceeds per year from the total capital base of \$3.35 billion. This would enable the BDF to give more financial support to anti-drug projects and to continue providing funding for projects even in times of market volatility and fluctuations in investment income.

1.7 ***Use of the BDF.*** Income generated by the BDF is used to provide financial support for anti-drug projects under the following schemes:

- (a) ***Regular Funding Scheme.*** The regular funding exercises are normally held once a year to support community-driven anti-drug activities in the areas of preventive education and publicity, treatment and rehabilitation, and research. In general, grant applications are invited in the third quarter of each year;

Note 5: *Government funds have been established in different ways such as by statute or by declarations of trust. Taking into account the relevant considerations including the need to roll out the BDF swiftly in response to the serious drug abuse problem at the time, the Government, with the support of the Legislative Council Finance Committee, established the BDFA under the Companies Ordinance in 1996 to administer the BDF. The new Companies Ordinance (Cap. 622) was introduced in 2014. According to the ND, the BDFA has taken steps to ensure full compliance with the new legislation.*

- (b) ***Special Funding Scheme for DTRCs.*** The Special Funding Scheme aims to provide financial assistance to the DTRCs to carry out capital works for meeting the licensing requirements stipulated in the Drug Dependent Persons Treatment and Rehabilitation Centres (Licensing) Ordinance (Cap. 566), and projects for enhancing their service capacity and standard. Applicants may apply for funding support all year round;
- (c) ***Healthy School Programme with a Drug Testing Component (HSP(DT)).*** The HSP(DT) is a school-based preventive education programme with voluntary drug testing for secondary school students. The ND usually invites secondary schools to participate in the HSP(DT) in January each year; and
- (d) ***Anti-drug Community Awareness Building Programme (ACABP).*** It is a multiple-year programme for supporting district-based activities to enhance anti-drug awareness in the community (especially the hidden drug abuse problem) through the 18 District Offices of the Home Affairs Department and 18 District Fight Crime Committees.

Between 2010-11 and 2014-15, the BDF supported a total of 240 projects with funding of \$390.3 million under the Regular Funding Scheme, the Special Funding Scheme and the HSP(DT). For the first round of the ACABP that ran from June 2013 to March 2015, a total of \$3.6 million was provided to the District Offices and the District Fight Crime Committees to organise anti-drug initiatives. The next round of the ACABP has been extended for three years from April 2015 to March 2018 with the total funding increased to \$6.2 million.

Central Registry of Drug Abuse

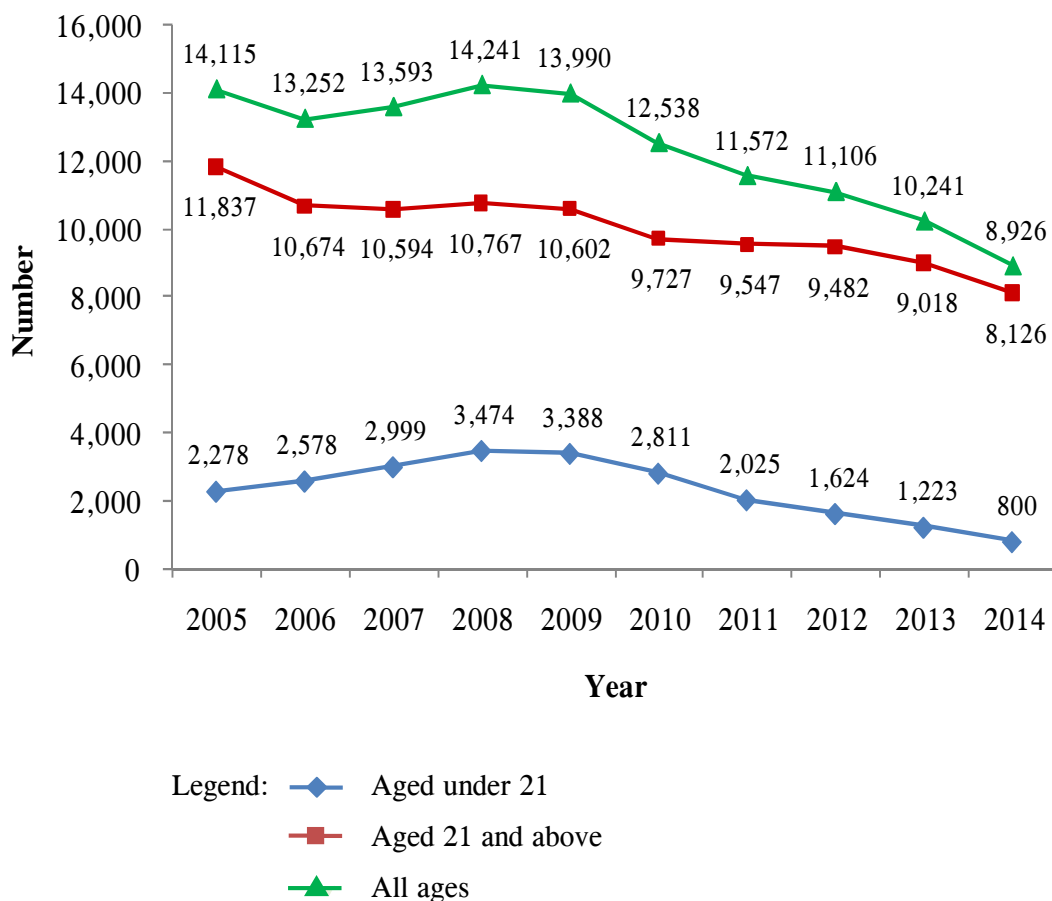
1.8 Established in 1972 under the Dangerous Drugs Ordinance (DDO — Cap. 134), the Central Registry of Drug Abuse (CRDA) of the SB provides drug abuse statistics for monitoring changes in drug abuse trends and characteristics of drug abusers to facilitate the planning of anti-drug strategies and programmes. Through a voluntary reporting system, information of drug abusers provided by the reporting agencies (including law enforcement agencies, treatment and welfare agencies, tertiary institutions, hospitals and clinics) is recorded in the CRDA.

Introduction

1.9 According to the statistics of the CRDA, the number of reported drug abusers (Note 6) decreased by 37% from 14,115 in 2005 to 8,926 in 2014 (see Figure 1). In particular, the number of reported young drug abusers aged under 21 increased from 2,278 in 2005 to the peak of 3,474 in 2008, and then decreased significantly by 77% to 800 in 2014. However, during the 10-year period from 2005 to 2014, the median length of drug abusing experience of newly reported abusers increased from 2.1 years to 5.2 years and that of newly reported abusers aged 21 and above increased from 3.2 years to 7.2 years (see Figure 2).

Figure 1

Reported drug abusers (2005 to 2014)

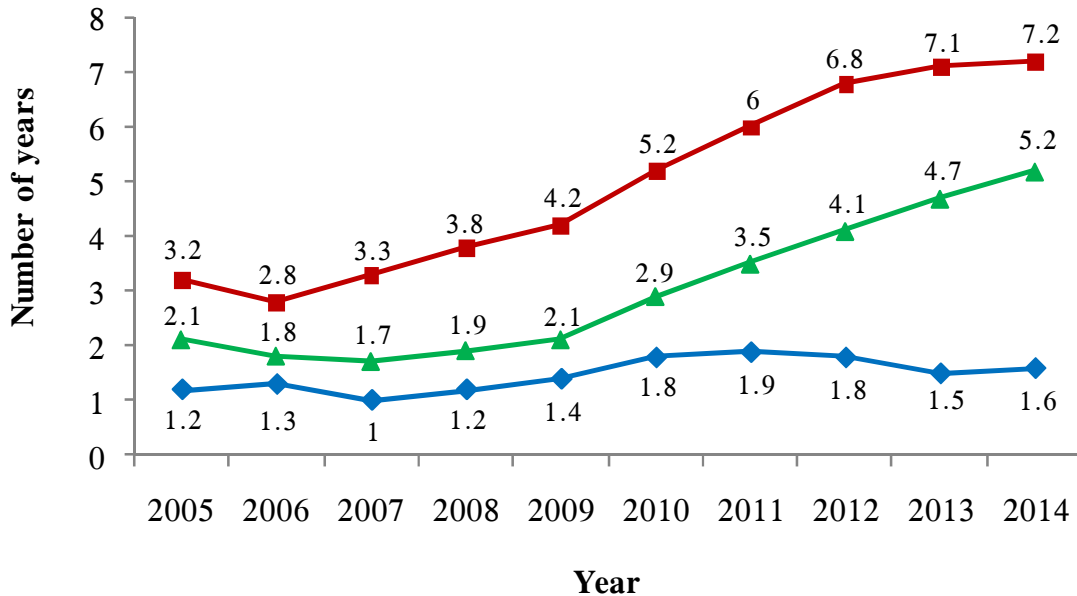


Source: ND records

Note 6: For the purpose of reporting, a drug abuser is defined as a person who has taken drugs in doses above those normally regarded as therapeutic in the preceding four weeks.

Figure 2

**Median length of drug abusing experience of newly reported abusers
(2005 to 2014)**



Legend:
◆ Aged under 21
■ Aged 21 and above
▲ All ages

Source: ND records

Remarks: According to the ND, in the first half of 2015, the medium length of drug abusing experience increased to 6.1 years for newly reported abusers of all ages, and 8.2 years for those aged 21 and above, but decreased to 1.5 years for those aged under 21. These figures could be subject to large fluctuations due to the small number of newly reported abusers captured for the half-year period.

Task Force on Youth Drug Abuse

1.10 In October 2007, the Chief Executive of the Hong Kong Special Administrative Region in his Policy Address announced the appointment of the Secretary for Justice (the Deputy Chairman of the Fight Crime Committee) to lead a high level inter-departmental task force, namely the Task Force on Youth Drug Abuse, to tackle the youth drug abuse problem which had caused community concern at the time. Its terms of reference were to review anti-drug measures,

Introduction

spearhead cross-bureaux and inter-departmental efforts, and enhance collaboration among the NGOs, stakeholders and the community, with a view to identifying areas of focus and improvement.

1.11 In November 2008, the Task Force on Youth Drug Abuse issued its report (hereinafter referred to as the 2008 Task Force Report) setting out recommendations on measures to be taken immediately, and sustainable and comprehensive strategies to be implemented in the longer term in various aspects including preventive education and publicity, school sector, treatment and rehabilitation, drug testing, research and the BDF. While the relevant B/Ds would implement the recommendations individually, the ND would take up the coordination role. In the subsequent years, the B/Ds took initiatives to ensure that the demand for various services arising from the prevalence of psychotropic substances was fully met (Note 7).

Chief Executive's anti-drug campaign

1.12 Further to the initiatives recommended by the Task Force on Youth Drug Abuse, the Chief Executive announced in July 2009 the stepping up of the anti-drug campaign. Under the campaign, a number of new initiatives (such as a trial scheme of school drug testing in Tai Po) were launched and existing services were enhanced. The government injection of \$3 billion into the BDF in 2010 (see para. 1.6) also provided new impetus to community projects and capital works for the DTRCs to fulfil licensing requirements. According to the ND, the anti-drug campaign significantly increased the capacity of various anti-drug services, enhanced the awareness of the community on drug issues and engaged various sectors in the community to fight against drug abuse together.

Latest situation on drug abuse

1.13 In May 2015, the ND reported to the LegCo Panel on Security the drug situation of 2014, as follows:

Note 7: *These included expanding the network of Counselling Centres for Psychotropic Substance Abusers, enhancing the outreaching and school social work services for young people with drug problems, increasing the capacities of the DTRCs and increasing the number of clinical sessions at the Substance Abuse Clinics.*

- (a) ***Decline in the number of drug abusers.*** There was a decline in the total number of reported drug abusers (from 10,241 in 2013 to 8,926 in 2014 by 13%), including the decrease of reported young drug abusers under the age of 21 (from 1,223 in 2013 to 800 in 2014 by 35% — see Figure 1 in para. 1.9);
- (b) ***Worsening situation of hidden drug abuse.*** The drug history of newly reported cases was rising. Half of the newly reported abusers in 2014 had abused drugs for 5.2 years or more, compared with 4.7 years in 2013 (see Figure 2 in para. 1.9). About 80% of the 2014 reported drug abusers took drugs at home or at friends' home, rather than at public places; and
- (c) ***Prevalence of psychotropic substance abuse.*** The popularity of psychotropic substance (such as ketamine, methamphetamine (“ice”), cocaine, cough medicine and cannabis) abuse had been growing in the past decade, with the number of psychotropic substance abusers surpassing that of narcotics drug (mainly heroin) abusers since 2007. Specifically, a general decline was observed in most of the substances abused while the number of abusers of “ice” had been increasing.

Audit review

1.14 The Government's five-pronged strategy to combat drug abuse requires the cooperation of various parties in the community including relevant B/Ds, the ACAN, the Hospital Authority and the NGOs (see paras. 1.3 and 1.4). In 2007, the Audit Commission (Audit) conducted two reviews, namely “The Society for the Aid and Rehabilitation of Drug Abusers” (Note 8) and “Voluntary treatment and rehabilitation programmes for drug abusers”, the results of which were included in Chapters 5 and 6 of the Director of Audit's Report No. 50 of March 2008. In 2010, Audit conducted another review on “Residential treatment and rehabilitation services for drug abusers” and the results were included in Chapter 10 of the Director of Audit's Report No. 55 of October 2010.

Note 8: *This NGO adopts a medical approach to provide voluntary residential treatment and rehabilitation programmes for drug abusers.*

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1.15 Audit has recently conducted a review to examine the ND's work in combating drug abuse, including the administration of the BDF, with a view to identifying room for improvement. The review has focused on the following areas:

- (a) anti-drug work of the ND (PART 2);
- (b) management of the BDF (PART 3);
- (c) administration of BDF projects (PART 4); and
- (d) way forward (PART 5).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

Acknowledgement

1.16 Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the ND during the course of the audit review.

PART 2: ANTI-DRUG WORK OF THE NARCOTICS DIVISION

2.1 This PART examines the following issues relating to the anti-drug work of the ND:

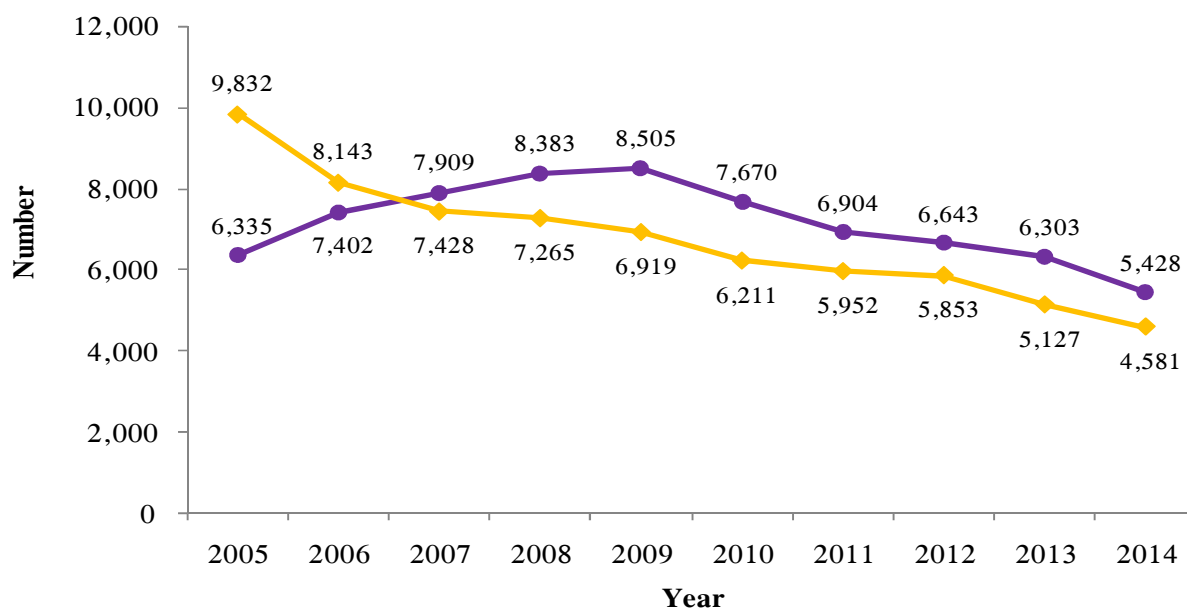
- (a) measures to tackle hidden drug abuse problem (paras. 2.4 to 2.25);
- (b) collection of drug abuse information (paras. 2.26 to 2.39); and
- (c) preventive education and publicity programmes (paras. 2.40 to 2.51).

Drug abuse trend

2.2 Since 2007, the number of psychotropic substance abusers has exceeded the number of narcotics drugs abusers (see Figure 3), indicating that psychotropic substances have become more prevalent than narcotics drugs. Prolonged abuse of psychotropic substances may lead to severe cognitive impairment, depression and hallucinations, and even induce dementia-like symptoms. It may also lead to various long-term and irreversible damages to bodily functions (such as brain, urinary tracts and liver).

Figure 3

Reported abusers of narcotics drugs and psychotropic substances
(2005 to 2014)



Legend: ◆ Reported abusers of narcotics drugs
● Reported abusers of psychotropic substances

Source: ND records

Remarks: As an abuser might take both narcotics drugs and psychotropic substances, the total number of reported abusers of narcotics drugs and psychotropic substances was greater than the total number of reported abusers in a year (see Figure 1 in para. 1.9).

2.3 According to the 2008 Task Force Report, psychotropic substance abuse is more hidden in nature because:

- (a) many psychotropic substances can be swallowed or sniffed rather than injected. The need for apparatus is often minimal, making discovery more difficult;
- (b) many psychotropic substances are subject to less frequent use and may not have immediate or apparent harmful effects on the body of an abuser at the beginning of abuse; and

- (c) the lower frequency of psychotropic substance abuse and the slow emergence of withdrawal symptoms and other harmful effects on the body of an abuser often make enquiries by family members less likely and young abusers themselves less motivated to seek help.

Measures to tackle hidden drug abuse problem

Hidden drug abuse

2.4 The continual rise in the median length of drug abusing experience of newly reported cases from 2005 to 2014 (see Figure 2 in para. 1.9) indicates that many drug abusers were only discovered after they had taken drugs for a long period of time. In other words, the hidden drug abuse problem has deteriorated.

Recommendations of the 2008 Task Force Report

2.5 According to the 2008 Task Force Report:

- (a) the rise of psychotropic substance abuse among young people posed significant challenges to Hong Kong. A major difficulty was identification and contact as many youngsters at risk might remain out of reach or unknown to help networks for years;
- (b) identification tools and outreaching programmes should be useful for seeking psychotropic substance abusers out for treatment and rehabilitation. The inadequacy of early intervention had been regarded as a service gap in the anti-drug sector;
- (c) a Supplementary Drug Abuse Monitoring System (SDAMS) to collect more information about the drug situation was originally designed with an additional qualitative module which was held up in 2006 due to non-availability of a suitable researcher (Note 9). The qualitative module

Note 9: *The original design of the SDAMS comprised a quantitative module and a qualitative module. While the quantitative module (for maintaining drug-related data) has been put into operation since 2006, the qualitative module has not been developed (see para. 2.10).*

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would encompass reaching out through different means in a structured manner (e.g. review of professional literature, Internet research, key informant personal interview and focus group discussion);

- (d) the World Health Organisation noted that populations that were best reached or studied through qualitative methods included hidden populations, groups usually not detected through the traditional household or student surveys, and those who did not participate in health and welfare institutions; and
- (e) efforts should be made to develop and launch the qualitative module of the SDAMS.

Initiatives in tackling hidden drug abuse problem

2.6 Over the years, the ND, in consultation with the ACAN, has made efforts to tackle the hidden drug abuse problem. In the Sixth Three-year Plan covering the period from 2012 to 2014, the ND highlighted the early identification of hidden drug abusers for intervention as one of the major anti-drug initiatives. In the Regular Funding Scheme of the BDF, the ND accorded priority to projects that promoted new and innovative measures to tackle the hidden drug abuse problem. According to the ND, the following initiatives had been taken to facilitate the early identification of those with drug problems:

- (a) ***Community awareness.*** The strategic directions for preventive education and publicity initiatives/programmes in both 2013 and 2014 had made enhancing community awareness of drug abuse problems and promoting early help-seeking as major issues;
- (b) ***Community and parent education.*** The ND had strengthened the efforts at community and parent education to prevent people from falling prey to drugs and facilitate early identification of drug abusers. In particular, the ACABP (see para. 1.7(d)) promoted a more active role of the community in identifying hidden drug abusers and encouraging them to seek help early. More support had also been given to family members of drug abusers, including encouraging relevant parties to apply for funding support under the BDF, so that these family members could better handle the drug abuse problem in their families; and

- (c) **Enhanced outreaching services.** The outreaching services provided by the Counselling Centres for Psychotropic Substance Abusers (see para. 1.4(a)) and outreaching social service teams had been strengthened. Efforts had also been made to encourage cooperation between the two parties as well as their collaboration with other service units (such as family doctors, nurses and social workers in youth/children centres) in identifying people at risk and drug abusers, and making referrals where appropriate.

2.7 In the Seventh Three-year Plan issued in July 2015, the ND also reported the following initiatives for early identification and intervention of the youth at risk:

- (a) **HSP(DT).** The ND had since 2011/12 (Note 10) launched the HSP(DT) (see para. 1.7(c)) to strengthen secondary school students' resolve to stay away from drugs and to help motivate students troubled by drugs to seek assistance and treatment. In 2015/16, over 90 secondary schools (Note 11) would join the HSP(DT);
- (b) **Drug testing.** Between September 2013 and January 2014, the ACAN conducted a public consultation exercise on introducing a drug testing scheme, namely the RESCUE Drug Testing Scheme (RDT — Note 12), aiming to provide an additional measure to identify drug abusers and refer them to counselling programmes in a timely manner. In July 2014, the ACAN announced the consultation conclusion and recommendations, and the Government agreed with the ACAN's recommendations on further developing specific proposals for the RDT; and

Note 10: *Unless otherwise stated, a year under the HSP(DT), student surveys and educational and training programmes for schools refers to a school year from September to August of the following year.*

Note 11: *According to the ND, as at September 2015, the number of participating schools in 2015/16 was 92.*

Note 12: *"RESCUE" is an acronym for "Reasonable and Early Screening for Caring and Universal Engagement". Under the proposed scheme, when there is circumstantial evidence to suspect that a person has taken illicit drugs, the law will enable law enforcement officers to require the person to undergo drug testing procedures.*

- (c) ***“186 186” service enhancement.*** As part of the initiatives to encourage drug abusers, and their family members and friends to seek help early, an anti-drug telephone hotline service “186 186” had been put in place since August 2009 (Note 13). Instant messaging service “98 186 186” was also launched in mid-2014 (Note 14) to provide people with an additional channel to seek assistance.

Need to formulate further strategies to address hidden drug abuse problem

2.8 The 2008 Task Force Report revealed that the rise of psychotropic substance abuse had posed significant challenges to Hong Kong and many drug abusers had remained out of reach for years. While various initiatives have been taken for early identification of drug abusers (see paras. 2.6 and 2.7), the hidden drug abuse problem has worsened since 2007 and remained an issue of concern. The median length of drug abusing experience of newly reported abusers increased from 1.7 years in 2007 to 5.2 years in 2014, and to 6.1 years in the first half of 2015 (see Figure 2 in para. 1.9). The situation was more serious for drug abusers aged 21 and above who had a median length of drug abusing experience of 7.2 years in 2014. As the ND is responsible for coordinating policies and measures across the stakeholders, it needs to continue its efforts in formulating further strategies to address the hidden drug abuse problem, taking into account the audit findings in paragraphs 2.9 to 2.22.

Need to expedite action on developing a qualitative module of the SDAMS

2.9 The 2008 Task Force Report pointed out that hidden populations were best reached through qualitative methods and appreciated the difficulties in identifying a suitable researcher for developing such methods. Nevertheless, the

Note 13: *The hotline service is manned by professional social workers to provide callers with appropriate counselling services and refer them to the NGOs for follow-up actions. Since its enhancement in 2012, the service has been provided 24 hours a day.*

Note 14: *According to the ND, the instant messaging service was launched on a trial basis and provision of the service in long term would be further reviewed. Starting from 1 July 2015, the service hours have been changed to 10:00 a.m. — 6:00 p.m. daily.*

2008 Task Force Report recommended that efforts should be made to develop and launch the qualitative module of the SDAMS (see para. 2.5(c) to (e)). In July 2008, in the half-yearly progress report on follow-up action on the 2008 audit review of “Voluntary treatment and rehabilitation programmes for drug abusers” (see para. 1.14), the ND informed Audit that it had consulted the Research Advisory Group (Note 15) and would launch the research project on the development of the qualitative module of the SDAMS.

2.10 Since 2010, the ND has invited applicants to develop the qualitative module of the SDAMS as a priority area project under the Regular Funding Scheme of the BDF. One application for developing the module was received each year in 2010 and 2011. However, they were not granted funding support due to keen competition (see para. 3.13(b)). Since then, no application for developing the module had been received.

2.11 The qualitative module would encompass reaching out through different means in a structured manner to collect more information about drug situation. In Audit’s view, there is a need to develop the qualitative module of the SDAMS in a structured manner, as recommended by the 2008 Task Force to enhance understanding of the drug situation and formulation of suitable anti-drug policies and programmes. The ND needs to expedite action in this regard.

Need to enhance the HSP(DT)

2.12 After a successful trial scheme in Tai Po district, the ND has launched since 2011/12 the HSP(DT) with funding support from the BDF (see paras. 1.7(c) and 2.7(a)). It comprises the following two major components:

- (a) ***Voluntary school drug testing.*** It aims at enhancing the resolve of students to stay away from drugs, and triggering the motivation of those students abusing drugs to quit drugs and seek help; and

Note 15: *The Research Advisory Group, comprising the Convenor and members from the ACAN or its sub-committees, and from the academic and professional fields, is responsible for overseeing the drug-related research work.*

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- (b) *Preventive anti-drug and personal growth activities.* The activities aim at cultivating healthy lifestyles of students and fostering a drug free culture on campus, and offering programmes for parents and teachers in providing necessary counselling and support to students in need.

Secondary school participation in the programme and student participation in the drug testing are voluntary. Schools participating in the HSP(DT) may coordinate and seek collaboration with NGOs to design activities which best suit their needs and development.

2.13 *School participation in the HSP(DT).* In around January of each year, the ND and the Education Bureau (EDB) issue a joint invitation letter to all local secondary schools (Note 16) to encourage them to join the HSP(DT) in the next school year (Note 17) and attend experience sharing sessions to enhance their understanding of different aspects of the HSP(DT). The ND also discusses the HSP(DT) with the stakeholders (including school sponsoring bodies, schools, and other relevant organisations or personnel) throughout the year and arranges meetings with the participating schools to gather their feedback on the operation of the programme. Audit noted that:

- (a) the ND aimed to progressively encourage more schools to participate in the HSP(DT). The number of secondary schools joining the HSP(DT) increased from 43 in 2011/12 to 71 in 2014/15, and further to 92 in 2015/16 (see Note 11 to para. 2.7(a)). However, when comparing with the total number of 479 local secondary schools as at August 2015, the school participation rate was only 19%; and

Note 16: *According to the ND, based on its past correspondence with some international schools, they either have included the drug testing element in their school regulations, or preferred compulsory instead of voluntary school drug testing. The ND has separately commissioned an NGO to provide anti-drug education programmes for international schools.*

Note 17: *An option for schools to run the HSP(DT) for two consecutive school years was introduced in 2013/14.*

- (b) the ND had organised experience sharing sessions for schools since 2013. Two sessions were held in early 2015 for the 2015/16 round of applications. However, the number of schools attending the sharing sessions was on the low side, ranging from 30 to 40 each year.

In Audit's view, the ND, in collaboration with the EDB, needs to make greater efforts to encourage school sponsoring bodies and secondary schools to participate in the HSP(DT).

2.14 *Student and parent participation in the HSP(DT).* From 2011/12 to 2014/15, the BDF supported the HSP(DT) with total funding of \$78.3 million. An analysis of the student and parent participation in the HSP(DT) at Appendix A shows mixed results. Audit noted that:

- (a) *Decrease in student participation in voluntary drug testing.* The overall proportion of students joining the voluntary drug testing dropped from 48% in 2011/12 to 43% in 2014/15 (Note 18). Moreover, the student participation rates in individual schools varied significantly from 3% to 96%;
- (b) *Decrease in student participation in preventive anti-drug activities.* From 2011/12 to 2013/14, the total number of students in the participating schools increased by 36% from 34,958 to 47,648. Over the same period, the number of anti-drug activities organised for students generally decreased by 7% from 584 to 546 and the number of students participating in the activities generally decreased by 20% from 99,764 to 79,444. According to the ND, many participating schools had organised more small-group activities to enable more focused work with the target students;
- (c) *Some participating schools not organising anti-drug activities for parents.* From 2011/12 to 2013/14, the number of preventive anti-drug activities organised for/with participation of parents increased from 30 to 55. The significant increase in the number of participants from 795 to 4,296 was encouraging. According to the ND, the funding cycles in the

Note 18: *Students participating in the voluntary drug testing were randomly selected to take the test.*

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past few years were advanced and the funding results were announced before the school years. As a result, more flexibility was provided for schools to arrange activities targeting at Form 1 students and their parents during the orientation period. However, Audit examination of the activity reports submitted by 56 schools participating in the HSP(DT) revealed that:

- (i) 17 (30%) schools had not organised any preventive anti-drug activities for/with participation of parents; and
 - (ii) for the other 39 (70%) schools with activities organised for parents, the number of parent participants in 15 schools did not meet the target numbers proposed in the implementation plans; and
- (d) *Evaluation research on the HSP(DT)*. The ND had engaged a contractor to conduct an independent evaluation research on the HSP(DT) in 2015/16 to review the effectiveness, administration and monitoring of the programme and make recommendations.

In Audit's view, the ND, in collaboration with the EDB, needs to take further steps to encourage participation in the voluntary drug testing by students and in anti-drug activities by students, parents and/or teachers, taking into account the experience of those schools with higher participation rates and findings of the evaluation research. The ND also needs to identify the reasons for some participating schools not organising anti-drug activities for parents, continue to render appropriate assistance in encouraging parent participation in those activities, and promote experience sharing by participating schools.

Need to continue study on the RDT

2.15 As mentioned in paragraph 2.7(b), in July 2014, the ACAN announced the consultation conclusion and recommendations on the RDT, as follows:

- (a) there was an overwhelming public support. While views in the public submissions were more divided, there was general support for the need to do more to facilitate early identification of drug abusers for early intervention;

- (b) the Swedish experience had demonstrated how a compulsory drug testing scheme might successfully work to achieve the objective of early identification, and hence the provision of assistance to drug abusers; and
- (c) the ACAN recommended that the Government should:
 - (i) continue to explore details of the RDT and engage stakeholders, professional bodies and the public in ongoing discussions. The Government should foster a more favourable environment for considering the RDT, including exploring ways to address the concerns of professional bodies especially on how to minimise the interference to human rights and civil liberties;
 - (ii) share the best practices in other countries (e.g. Sweden) with local stakeholders and develop a follow-up mechanism that could effectively balance giving a chance to the drug abusers while mandating counselling and treatment; and
 - (iii) immediately follow up the recommendations and roll out proposals for operational details for a second-stage public consultation as soon as practicable.

In the same month, the Government announced that it agreed with the ACAN's recommendations on developing specific proposals.

2.16 At a LegCo Establishment Subcommittee meeting in January 2015, in response to some LegCo Members' questions, the Commissioner for Narcotics responded that the Government was mindful of the need to secure support of different sectors for the implementation of the RDT, and there was a need to explore possible options to resolve controversial issues surrounding the RDT. Hence, the Government did not have a firm timetable for launching the second-stage public consultation and the next step would hinge on the views of different sectors in the community and further deliberations of relevant issues with them. In view of the development, the ND needs to carry out further study on the RDT in consultation with interested parties on aspects of concern in drawing up detailed proposals for the RDT.

Need to further improve public awareness of hotline service and instant messaging service

2.17 Anti-drug enquiry services are provided for drug abusers to seek help early through the 24-hour hotline service “186 186” and instant messaging service “98 186 186” (see para. 2.7(c)). The ND has publicised the services through different means, including Announcements in the Public Interest through television and radio, advertisements on smartphone applications and online discussion forums, posters, and preventive education and publicity activities.

2.18 The ACAN considered that the hotline and instant messaging services provided support and assistance to hidden drug abusers. This was supported by usage statistics that between 20 September 2012 and 30 April 2015, of the total 4,981 help-seeking cases received through the two services, 1,821 (37%) were related to first-time help-seekers.

2.19 The ND conducts annual opinion surveys of Hong Kong residents aged between 11 and 60 through telephone interviews to assess the extent to which the relevant publicity initiatives have helped promote awareness of specific publicity messages as a reference for future publicity initiatives. According to the 2013 and 2014 surveys:

- (a) the awareness rates of the anti-drug messages promoted by the relevant publicity initiatives on the hotline service “186 186” ranged from 42% to 52%; and
- (b) the awareness rate of the anti-drug messages on the instant messaging service “98 186 186” was 21% after launching the service and relevant Announcement in the Public Interest for six months (Note 19) (see Appendix B).

Note 19: *According to the ND, it is not uncommon for a service and its related publicity initiatives, which have only been launched for about six months by the time the public opinion survey is conducted, to be relatively lower. Experience tells that the awareness would gradually improve with time.*

2.20 According to the ND, efforts in enhancing and promoting the “186 186” services as an additional channel to encourage drug abusers to seek early help had been well appreciated by stakeholders in the anti-drug field. However, during a consultation session with the NGOs on the Seventh Three-year Plan before its issue in July 2015, a few NGOs commented that the hotline service “186 186” should be further promoted as some members of the public were not well aware of its purposes. In Audit’s view, the ND needs to take measures to further improve public awareness of the two services. The ND also needs to review the effectiveness of the instant messaging service “98 186 186” which has been launched on a trial basis since mid-2014 (see para. 2.7(c)) to determine the way forward.

Need to analyse views of young adults in annual opinion surveys

2.21 Audit noted that of the newly reported drug abusers in 2014, 55% were young adults (aged 21 to 35). They were mostly outside the reach of the school network. Their views collected through the annual opinion surveys (see para. 2.19) are important for planning future publicity initiatives. The present practice of specifically analysing only the views of three categories of respondents (i.e. youngsters aged from 11 to 20, parents, and high-risk people who know some drug abusers and/or have been offered drugs before) needs enhancement to also cover the views of young adults.

Discrepancies in voluntary drug testing figures

2.22 In examining the HSP(DT), Audit requested the ND to provide yearly data on voluntary school drug testing from 2011/12 to 2013/14 including the number of participants, number of persons who took the test and number of persons who did not complete the test. Audit found that some figures provided by the ND were different from those provided to LegCo Members in the examination of Estimates 2015-16 in March 2015. In particular, the discrepancies were most significant for 2011/12 (see Appendix C). Upon enquiry, the ND said that the discrepancies could be attributed to the use of incomplete information for 2011/12, and data collection at different snapshots and data compilation based on different definitions for 2012/13 and 2013/14. The ND acknowledged that there was some oversight in providing certain figures. In Audit’s view, the ND needs to step up checking of information provided to LegCo.

Audit recommendations

2.23 **Audit has *recommended* that the Commissioner for Narcotics should formulate further strategies to tackle the hidden drug abuse problem taking into account the need to:**

- (a) expedite action on developing the qualitative module of the SDAMS to enhance understanding of the drug situation and formulation of suitable anti-drug policies and programmes;**
- (b) in collaboration with the Secretary for Education, make greater efforts to encourage school sponsoring bodies and secondary schools to participate in the HSP(DT);**
- (c) in collaboration with the Secretary for Education, take further steps to encourage participation in the voluntary drug testing by students and in anti-drug activities by students, parents and/or teachers, taking into account the experience of those schools with higher participation rates and findings of the forthcoming evaluation research of the HSP(DT);**
- (d) in collaboration with the Secretary for Education, identify the reasons for some participating schools not organising anti-drug activities for parents, continue to render appropriate assistance in encouraging parent participation in those activities, and promote experience sharing by participating schools;**
- (e) carry out further study on the RDT in consultation with interested parties on aspects of concern in drawing up detailed proposals for the RDT;**
- (f) take measures to further improve public awareness of the hotline service “186 186” and instant messaging service “98 186 186”;**
- (g) review the effectiveness of the instant messaging service “98 186 186” which has been launched on a trial basis since mid-2014 to determine the way forward;**

- (h) **analyse the views of the young adults collected through the annual opinion surveys for planning future publicity initiatives; and**
- (i) **step up checking of information provided to LegCo.**

Response from the Government

2.24 The Commissioner for Narcotics agrees in principle with the audit recommendations for formulating further strategies to tackle the hidden drug abuse problem. She has said that:

- (a) it has been one of the ND's priorities in continuously identifying measures, in collaboration with the ACAN, the anti-drug sector and the community, to tackle the hidden drug abuse problem on different fronts;
- (b) the ND adopts an evidence-based approach in the formulation of anti-drug policies and programmes. It will continue to collect both qualitative and quantitative data to facilitate understanding of the drug situation and implementation of suitable anti-drug initiatives;
- (c) taking into account difficulties encountered in identifying a suitable researcher for the development of the qualitative module of the SDAMS and the Research Advisory Group's view that the relevant information could be collected from other means, the ND has been making continuous attempts to capture qualitative information through multiple sources to enable the monitoring of the drug trend in a comprehensive manner. These include frequent engagement with frontline workers, establishing a drug monitoring system to keep track of the development of new types of psychotropic drugs in the market, and commissioning various thematic researches. The ND will continue with such efforts and will consult the ACAN and the Research Advisory Group as appropriate;
- (d) the ND welcomes the audit recommendation on encouraging participation of school sponsoring bodies and secondary schools in the HSP(DT). The ND is actively promoting the HSP(DT) through multiple stakeholder engagement, including members of school sponsoring bodies, school principals and staff, and/or relevant organisations and personnel. Against the concerns expressed by some schools over possible labelling effects

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caused by conducting school drug testing, it is noted that the steady growth in the number of schools joining the HSP(DT) since 2011/12 reflects that the existing promotional strategies are bearing fruit. The ND will continue to actively promote the HSP(DT), including promoting understanding of its objectives;

- (e) as a school-based initiative, the HSP(DT) allows flexibility for participating schools to plan and organise activities and school drug testing according to their specific background and circumstances. Schools may therefore have varying preference on activities for parents and/or teachers. The ND respects the assessment of the schools and will continue to encourage schools to arrange activities which best suit the needs of students and the development of the schools;
- (f) student participation in school drug testing will vary in different schools with regard to the voluntary nature of the component. In particular, experience shows that it takes time for students and parents to be familiar with the objectives and administration of drug testing, but the student participation rate will gradually pick up after one or two school years. The ND will continue to work with schools and the NGOs to encourage student participation in school drug testing;
- (g) the ND takes an active interest in continuously reviewing the administration of the HSP(DT) in light of experience. The independent evaluation research commissioned in 2015/16 (see para. 2.14(d)) will also cover issues addressed by Audit and will, where appropriate, make recommendations on improvement measures;
- (h) the audit recommendation in paragraph 2.23(e) is in line with the Government's direction. The ND will continue to examine different issues concerning the RDT in consultation with interested parties;
- (i) the ND attaches great importance to promoting public awareness on and usage of the services of "186 186" and "98 186 186", as one of the measures for addressing the hidden drug abuse problem. Such efforts will continue. The ND will also review the effectiveness of the "98 186 186" service as soon as possible to determine the way forward;

- (j) the ND conducts annual public opinion surveys to gauge the effectiveness of various publicity initiatives implemented in the past years. In light of the rising proportion of drug abusers in their young adulthood, the ND will collect and analyse the views of this group in future surveys; and

- (k) the ND will step up checking of information provided to LegCo in future. In response to Audit's request for data during the audit review, the ND adopted new formats of tabulations for data entry as well as more formulae for the compilation of statistics. The new system of data entry, with computer validation checking, will provide an assurance for consistency and reliability, and has since June 2015 been adopted in all relevant data updating. Meanwhile, the ND will explore other measures to improve the system in the context of the evaluation research commissioned (see para. 2.14(d)), including seeking to standardise definitions and establishing a complete set of quality control measures to counter-check data input. The objective will be to ensure the reliability of the system for statistical analyses as the amount of data continues to grow steadily as a result of the extension of the HSP(DT) to more schools.

2.25 The Secretary for Education generally accepts the audit recommendations in paragraph 2.23(b) to (d). He has said that:

- (a) the EDB will continue to work with the ND to further enhance the implementation of the HSP(DT) by encouraging school sponsoring bodies and secondary schools to participate in the HSP(DT) and promoting experience sharing to disseminate good practices; and

- (b) the HSP(DT) is funded by the BDF. In this connection, the EDB will continue to collaborate with the ND in vetting the applications and providing advice to the NGOs in organising the anti-drug activities.

Collection of drug abuse information

2.26 The ND collects drug abuse information mainly through the CRDA and student surveys:

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- (a) **CRDA.** Drug abuse information is provided to the CRDA on a voluntary basis by the reporting agencies (see para. 1.8). The confidentiality of all records held by the CRDA and its reporting agencies is safeguarded by the DDO and the Personal Data (Privacy) Ordinance (Cap. 486). As at August 2015, there were 72 reporting agencies which were included in Schedule 4 of the DDO under which data confidentiality is statutorily protected; and
- (b) **Student surveys.** The ND conducts surveys once every three years (Note 20) to collect information on drugs use by students at upper primary, secondary and post-secondary levels (Note 21). Students are required to complete an anonymous questionnaire and only aggregated statistics of the surveys are released.

Need to encourage reporting of drug abuse information to the CRDA

2.27 As the collection of drug abuse information by the CRDA relies on a voluntary reporting system, some reporting agencies may not report all the drug abuser cases. As stated in the 2008 Task Force Report, it was not the intention of the CRDA to ascertain the exact size of the drug abuse population in Hong Kong, but statistics derived from it would reflect the trends of drug abuse. Given that there were demands by different quarters to reduce under-reporting of the CRDA as far as possible, the 2008 Task Force Report recommended that the ND should make ongoing efforts to improve the CRDA. In response, the ND in 2012 and 2014 invited 54 reporting agencies to attend two briefings to promote the work of the CRDA and collect feedback from them. However, the attendance rates of the reporting agencies in the two years were only 52% and 48%. In the consultation stage of the Seventh Three-year Plan, the ND noted that some reporting agencies were concerned about the security of drug abuse information which was in fact

Note 20: *Before 2008/09, student surveys were conducted once every four years.*

Note 21: *Upper primary level refers to primary four to six of local primary schools and year five and six of international primary schools. Secondary level refers to secondary one to six of local secondary schools and year seven to 13 of international secondary schools. Post-secondary level refers to publicly-funded and self-financing degree and sub-degree programmes.*

protected by law (Note 22). The ND had pledged in the Three-year Plan to continue to organise briefings/seminars to familiarise reporting agencies with the use of the CRDA and advise them of the safeguards which had been built into the system to protect the privacy of reported drug abusers.

2.28 The current reporting situation of drug abuse information is still a matter of concern, as evidenced by the following:

- (a) in 2014, 41 (57%) of the 72 reporting agencies had not reported any cases to the CRDA (Note 23). During the four-year period from 2011 to 2014, 39 (54%) reporting agencies had not reported any cases; and
- (b) according to the non-identifying information collected by the ND (Note 24), in 2011, 2012 and 2013, 1,213, 1,572 and 1,055 drug abusers (who were engaged by the reporting agencies) were not willing to be identified and therefore their information was not reported to the CRDA.

Relevant drug abuse statistics are crucial to the planning of anti-drug strategies and programmes. In Audit's view, the ND needs to strengthen its ongoing efforts to encourage reporting agencies to report drug abuse information to the CRDA as far as possible (e.g. inviting all reporting agencies to attend the briefings), particularly for those which have not done so for years.

Note 22: *All information supplied to the CRDA is accessible only to the people who are directly involved in the operation of the CRDA and workers of reporting agencies. They are required to observe the rule of confidentiality. Any person who discloses any record of confidential information which is kept by the CRDA or a reporting agency, or supplies to any person information obtained from any such record, or permits access to any such record, commits an offence.*

Note 23: *According to the 2008 audit review (see para. 2.9), 39 (58%) of the 67 reporting agencies had not reported any drug abuser cases in 2006. The number of reporting agencies has increased from 67 to 72 since 2011.*

Note 24: *Since 2009, the ND has collected from some reporting agencies annually the characteristics of drug abusers (without personal identity) whom they came into contact but their information was not reported to the CRDA.*

Need to follow up estimation methods for drug abuse population

2.29 The 2008 Task Force Report also pointed out that:

- (a) owing to the voluntary nature of the CRDA and student surveys, the number of drug abusers might be grossly underestimated. There were increasing demands for a more accurate estimate of the number of drug abusers to facilitate better allocation of resources and formulation of policies and measures; and
- (b) while acknowledging that there was no universally accepted method to accurately measure the size of the drug abuse population in a country or a territory, the Report recommended that:
 - (i) further research should be launched to review various methodologies for estimating the drug population and to recommend a possible method that would be suitable in the Hong Kong context; and
 - (ii) subject to a satisfactory identification of a suitable estimation method, a further study might be considered in due course to apply the method for estimating the number of drug abusers in Hong Kong.

2.30 In late 2009, the ND engaged a contractor to review the estimation methods on prevalence of drug abuse population in Hong Kong. The contractor completed the study in February 2013 and recommended, among others, adopting the two-source capture-recapture methodology (Note 25) in estimating the number of drug abusers.

2.31 In September 2015, in response to Audit's enquiries, the ND said that:

Note 25: *This methodology is commonly used to estimate a population's size when it is not practical to count all the individuals in the population.*

- (a) at its meeting in February 2013, the Research Advisory Group had considered the proposal but was of the view that the assumptions required of such methodology (such as assuming the population under study to be closed without individuals entering or leaving during the study period) were in practice not met. Thus, the estimates derived from the 2013 study should serve as a reference only, and could at best give a rough estimate of the size of the drug abuse population. Therefore, the estimates should not be taken as the basis for resource planning; and

- (b) in 2015, the BDF had supported another research to estimate the total drug abuse population of Hong Kong.

In Audit's view, the ND needs to expedite the relevant work in this regard with a view to collecting more comprehensive data about the drug abuse population in Hong Kong.

Need to improve data submission to the CRDA

2.32 The CRDA has developed an e-Submission system to facilitate online submission of electronic data of drug abusers by reporting agencies. The system also streamlines the ND's work flow and improves data quality and timeliness for the CRDA. However, Audit noted that as at August 2015, two of the 72 reporting agencies (including the HKPF) still submitted drug abuse information to the ND in paper form:

- (a) the HKPF submitted information of some 2,000 drug abuser cases (or 23% of the total cases) in 2014. The information was in fact stored in the HKPF's computer system but there was no interface with the CRDA to enable electronic transfer of data. According to ND records, the ND had discussed with the HKPF in 2008 and 2009 on the interface issue. Owing to data security consideration, the HKPF had to undertake system upgrading in order to enable electronic data transfer for CRDA reporting. With the lapse of time, the ND needs to take prompt follow-up actions with the HKPF with a view to improving the efficiency and accuracy in data submission to the CRDA; and

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- (b) as regards the other reporting agency, the ND informed Audit in October 2015 that due to its focus on long-term residential drug treatment service, this agency normally had only a small number of abusers to report (e.g. only 10 in 2014). Flexibility for reporting agencies to choose their form of submission would give them greater motivation to report.

Need to widen the reporting network and keep Schedule 4 of the DDO up-to-date

2.33 As a result of the ND's efforts to identify new reporting agencies, the number of reporting agencies increased from 67 in 2006 to 72 in 2015. However, Audit noted that an organisation which reported an average of 46 drug abuser cases to the CRDA each year during 2010 to 2014 had not been included in Schedule 4 of the DDO to provide statutory protection for data confidentiality (see para. 2.26(a)).

2.34 Given the increasing problem of hidden drug abuse among those aged 21 and above, some organisations (such as self-funded tertiary institutions) which might have contacts with drug abusers of this age group should be enlisted as reporting agencies and included in the Schedule. In Audit's view, the ND needs to step up its efforts to widen the reporting network of the CRDA and regularly update the reporting agencies list in Schedule 4 of the DDO to accord them the statutory protection of data confidentiality.

Need to improve school participation in student surveys

2.35 As mentioned in paragraph 2.26(b), the ND engages contractors to conduct student surveys regularly to collect information on drug-taking trends and patterns, drug-taking students' profiles, and students' knowledge of drugs and attitudes towards drug-taking. To ensure the representativeness of the survey, a high participation rate of schools is desirable. Before the launch of each survey, the ND and the EDB issue a joint letter to solicit the schools' support. Audit examination of the surveys conducted in the 2008/09, 2011/12 and 2014/15 (see Appendix D) revealed that:

- (a) the participation rates of all five types of schools were generally declining (i.e. from 70% in 2008/09 to 63% in 2014/15 for local primary schools, from 14% to 9% for international primary schools, from 68% to 63% for local secondary schools, from 52% to 38% for international secondary schools, and from 94% to 81% for post-secondary institutions); and
- (b) the participation rates of international schools were generally lower than those of local schools. In particular, only 4% to 14% of international primary schools participated in the surveys, which might have adversely affected the representativeness of the survey results. According to the ND, with a view to encouraging participation by international schools, it had invited all international schools to participate in the surveys, instead of adopting a sampling method. The number of participating international schools was maintained at a stable level.

According to the schools' feedback collected by the contractors, the main reasons for not participating in the student surveys were time constraint and no interest in participation. In Audit's view, the ND, in collaboration with the EDB, needs to consider engaging directly with the non-participating schools in working out ways to address their concerns and hence securing their collaboration in the surveys.

Audit recommendations

2.36 **Audit has *recommended* that the Commissioner for Narcotics should:**

- (a) **strengthen ongoing efforts to encourage reporting agencies to report drug abuse information to the CRDA as far as possible, particularly for those which have not done so for years;**
- (b) **expedite the work on collecting more comprehensive data about the drug abuse population in Hong Kong;**
- (c) **take prompt follow-up actions with the HKPF on interfacing the computer systems to enable electronic transmission of drug abuse information to the CRDA;**

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- (d) **step up efforts to widen the reporting network of the CRDA and regularly update the reporting agencies list in Schedule 4 of the DDO; and**
- (e) **in collaboration with the Secretary for Education, consider engaging directly with schools not participating in the student surveys in working out ways to address their concerns and hence securing their collaboration in the surveys.**

Response from the Government

2.37 The Commissioner for Narcotics agrees in principle to explore the audit recommendations, where appropriate. She has said that:

- (a) the ND makes ongoing efforts to encourage reporting to the CRDA by both existing and new agencies. Apart from organising briefings to reporting agencies, the importance of reporting to the CRDA had also been highlighted during the consultation on the Seventh Three-year Plan (see para. 2.27);
- (b) as regards electronic data submission to the CRDA, the ND and the HKPF will continue to work closely together in pursuing the necessary system upgrading for achieving the purpose;
- (c) the ND attaches great importance to collecting comprehensive data about the drug abuse population in Hong Kong, and will continue to closely monitor the progress of the research study which commenced in 2015 (see para. 2.31(b)); and
- (d) the ND makes vigorous efforts in encouraging participation in the student surveys. Apart from issuing joint letters to school principals with the EDB, and inviting all international schools (as against adopting a sampling method) to participate in the survey, various measures have been implemented to encourage participation (e.g. conducting briefings for school head associations to promote support, seeking help from the NGOs which have close working relationship with schools on drug issues to urge schools to join the survey, providing participating schools with individual school reports on aggregated statistics of survey results of their

students as an incentive, and flexibly arranging the fieldwork sessions to suit the busy schedule of schools). Nevertheless, the ND will continue to explore further means to encourage schools' participation in future student surveys, in collaboration with the EDB.

2.38 The Commissioner of Police agrees with the audit recommendation in paragraph 2.36(c). He has said that the HKPF and the ND will continue to work closely together in pursuing the necessary system upgrading for electronic data submission to the CRDA.

2.39 The Secretary for Education generally accepts the audit recommendation in paragraph 2.36(e). He has said that the EDB will continue to work with the ND to further enhance the conduct of regular student surveys by soliciting the schools' support in the surveys.

Preventive education and publicity programmes

2.40 According to the ND, preventive education and publicity is the mainstay of the demand reduction efforts and the very first line of defence in the war against drug abuse under the five-pronged anti-drug strategy (see para. 1.3(b)). Over the years, the ND has worked closely with relevant stakeholders to implement various preventive education and publicity initiatives.

2.41 To enhance drug education in primary and secondary schools, the ND has commissioned a number of NGOs to provide the following three types of anti-drug education and training programmes (Note 26):

Note 26: *The NGOs' services are paid based on the number of students/teachers/schools reached.*

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- (a) ***On-site education programmes for students.*** These programmes are provided for primary three to six students in all local primary schools and all international primary and secondary school students (Note 27). Programme contents cover knowledge on common drug types and their harmful effects, refusal skills and information on help-seeking channels;
- (b) ***Half-day on-site training programmes for teachers.*** Pursuant to the recommendations of the 2008 Task Force Report, the ND organises these programmes for teachers of all local primary and secondary schools aiming to enhance their skills in delivering anti-drug education, identifying the youth at risk and handling students with drug problems, and to equip them with skills and practical knowledge in implementing a healthy school policy with an anti-drug element promulgated by the EDB (Note 28); and
- (c) ***Two-day advanced training programmes for key school personnel and school management staff.*** Also pursuant to the recommendations of the 2008 Task Force Report, the ND provides these programmes for key school staff of all local primary and secondary schools. Programme contents cover techniques in drawing up guidelines for handling drug cases in schools and developing a framework for helping high risk students.

Audit examination of the drug education programmes organised by the ND during 2009/10 to 2013/14 revealed room for improvement. Audit findings are set out in paragraphs 2.42 to 2.49.

Note 27: *The education programmes for local secondary schools are organised by 11 Counselling Centres for Psychotropic Substance Abusers under the subvention of the SWD.*

Note 28: *In response to one of the recommendations of the 2008 Task Force Report, the EDB has been promoting the institutionalisation of a healthy school policy with an anti-drug element in schools.*

*Need to cover more target schools
in education and training programmes*

2.42 The 2008 Task Force Report recommended that the education programmes for upper primary students and training programmes for teachers should cover their corresponding target schools in three years and five years respectively as far as possible. However, during the four-year period from 2010/11 (Note 29) to 2013/14, 526 (88% of the 598 target schools — Note 30) schools for the education programmes were reached. During the six-year period from 2008/09 (i.e. the launch of the programme) to 2013/14, only 427 (42% of the 1,011 target schools — Note 31) schools for the training programmes were reached. Audit notes that in recent years the ND has been monitoring the participation rates of students/teachers in addition to schools. However, there is still a need to take measures to ensure that more target schools are covered within a reasonable time frame.

*Need to encourage participation in
education and training programmes*

2.43 Figures 4 and 5 are year-by-year analyses of the numbers of schools, students and teachers reached under the education and training programmes. It can be seen that they were generally declining.

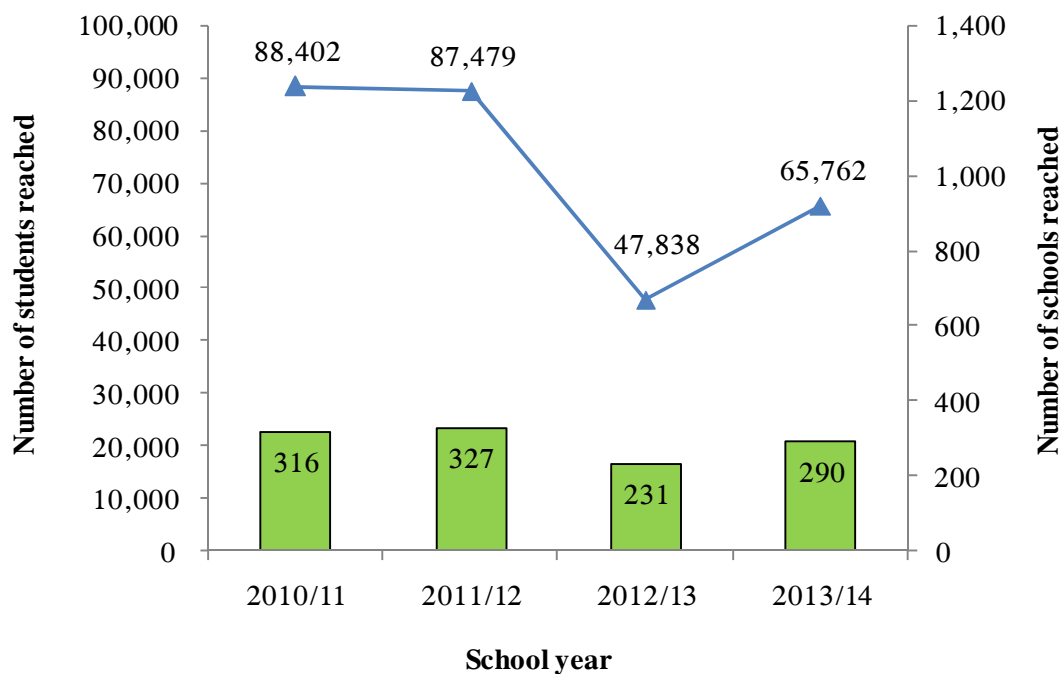
Note 29: *The education programmes were launched in 1999/2000 and the ND revised the programme contents in 2010/11 to include role-plays, interactive puppet shows, musical and adventure activities, and visits to the Hong Kong Jockey Club Drug InfoCentre.*

Note 30: *According to the paper submitted to the ACAN by the ND in December 2014, there were 598 local primary schools and international primary and secondary schools in 2013/14, which were targeted to be reached for the education programmes.*

Note 31: *According to the paper submitted to the ACAN by the ND in December 2014, there were 1,011 local primary and secondary schools in 2013/14, which were targeted to be reached for the training programmes.*

Figure 4

On-site education programmes for students
(2010/11 to 2013/14)

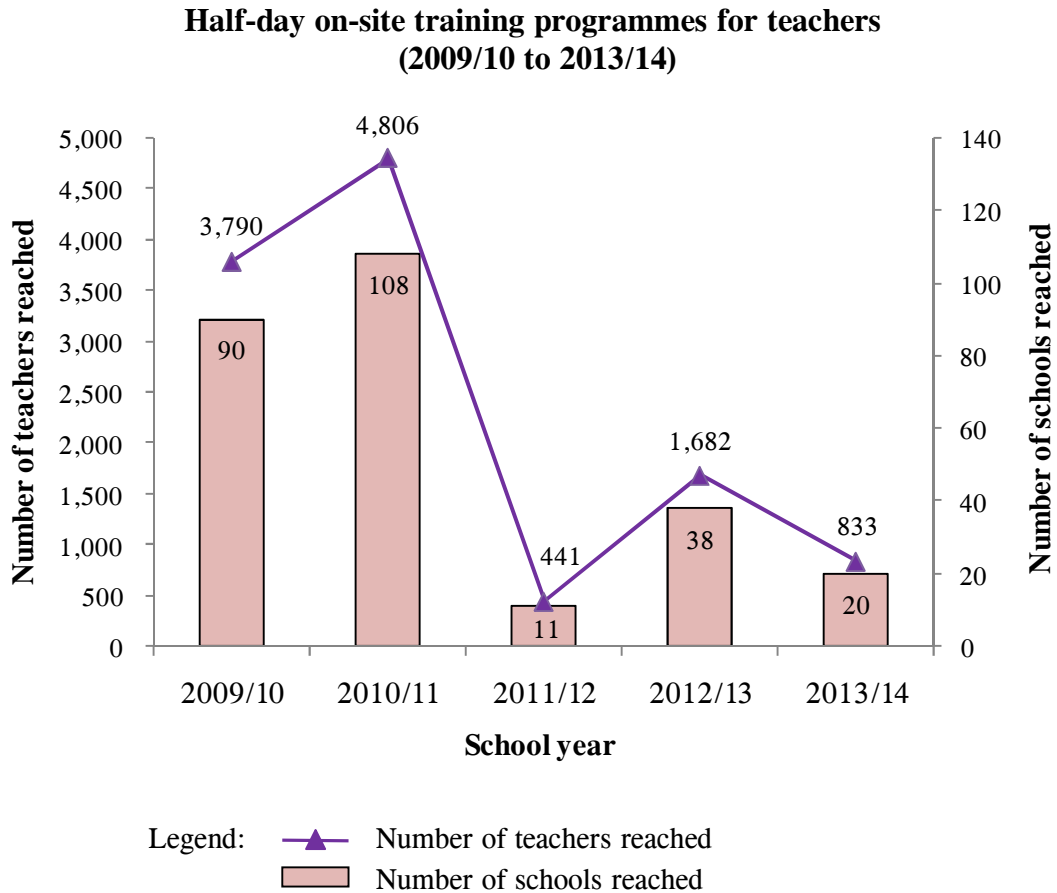


Legend: ▲ Number of students reached
 Number of schools reached

Source: ND records

Remarks: For like-with-like comparison, the analysis started from 2010/11 when the ND revised the programme contents (see Note 29 to para. 2.42).

Figure 5



Source: ND records

Remarks: For 2011/12, the programmes only lasted for six months from March to August 2012.

2.44 The ND conducts periodic reviews on the anti-drug education and training programmes. According to the latest review in 2014 (hereinafter referred to as the 2014 Review):

- (a) **Education programmes for students.** Over 95% of the participating schools considered the programmes effective. Noting the competing priorities of schools and the improving situation of youth drug abuse which might have shifted their attention from anti-drug education, the 2014 Review recommended launching more innovative initiatives such as interactive drama education programmes; and

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- (b) *Training programmes for teachers.* All participants were satisfied with the programmes. Some schools had difficulties in arranging at least 40 teachers or 80% of all teachers to take part in the training programmes, or arranging teachers to attend the training session for 2.5 hours as required by the programmes.

2.45 In light of the 2014 Review results, the ND:

- (a) engaged an organisation in mid-2014 to provide an anti-drug drama education programme on a trial basis. According to the ND, the response was overwhelming and all participating schools indicated that the programmes had enhanced students' awareness in drug harm, refusal skills to drugs and knowledge in consequences of involvement in drug crimes; and
- (b) made adjustments to the training programmes such as trimming the required class size, expanding the target group to cover school social workers and shortening the class duration.

The initiatives taken by the ND are noteworthy. The ND needs to closely monitor the effectiveness of these initiatives in promoting participation in the education and training programmes and take further measures where necessary.

Need to award contracts for education and training programmes in a timely manner

2.46 In the 2011 and 2014 evaluation reports on the education programmes for students and training programmes for teachers submitted to the ND, some NGOs commented that insufficient time was provided for their promotion of the education and training programmes to schools and schools' consideration of including such programmes in school calendars in the first school year. They suggested that related contracts should be awarded earlier and preferably no later than June of a year.

2.47 For the provision of the education and training programmes commencing 2014/15, six of the 10 contracts were awarded in August 2014. For the remaining four contracts awarded in October 2014, the delay was due to the need to conduct a second quotation exercise as the first one failed to attract any submissions. Based on such experience, the ND needs to endeavour to award the contracts for the education and training programmes before the start of a school year as far as practicable so that the contracted NGOs will have sufficient time to promote the programmes to schools.

Need to improve and re-launch advanced training programmes for key school staff

2.48 The 2008 Task Force Report recommended that the two-day advanced training programmes should cover key school staff of all the local primary and secondary schools in five years' time. Audit noted that during the five-year period from 2008/09 to 2012/13, 547 schools (54% of the 1,011 target schools — see Note 31 to para. 2.42) and 825 participants were reached (Note 32). According to the 2014 Review (see para. 2.44), over 90% of the participants were satisfied with the programme contents and agreed that the programmes could enhance their ability in identifying and handling students with drug problems. However, such programmes have not been organised since July 2013.

2.49 In September 2015, the ND informed Audit that upon completion of the 2014 Review, the ND was in the process of re-launching the advanced training programmes with suggested improvements incorporated. In view of the lapse of time, the ND needs to re-launch the improved programmes as soon as possible.

Note 32: *According to the paper submitted to the ACAN by the ND in December 2014, the coverage of the programmes was difficult to work out because the number of key school staff varied among individual schools.*

Audit recommendations

- 2.50 **Audit has *recommended* that the Commissioner for Narcotics should:**
- (a) **take measures to ensure that more target schools of the education and training programmes are covered within a reasonable time frame;**
 - (b) **closely monitor the effectiveness of the initiatives in promoting participation in the education and training programmes and take further measures where necessary;**
 - (c) **endeavour to award the contracts for the education and training programmes before the start of a school year as far as possible so that the contracted NGOs will have sufficient time to promote the programmes to schools; and**
 - (d) **re-launch the advanced training programmes for key school staff with the necessary improvements incorporated as soon as possible.**

Response from the Government

2.51 The Commissioner for Narcotics agrees to take into account the audit recommendations in future reviews of the education and training programmes. She has said that:

- (a) the ND will continue to closely monitor the implementation and effectiveness of the anti-drug education programmes for students and training programmes for teachers. This is in line with ongoing efforts of the ND in conducting periodic reviews of such programmes (see para. 2.44); and
- (b) enhancement and refinement measures will be introduced as a result of review findings.

PART 3: MANAGEMENT OF THE BEAT DRUGS FUND

3.1 This PART examines the management of the BDF, focusing on the following areas:

- (a) governance and accountability (paras. 3.2 to 3.10); and
- (b) funding for projects (paras. 3.11 to 3.19).

Governance and accountability

3.2 The BDF is administered by the BDFA which is a non-profit-making limited company incorporated under the Companies Ordinance. Governed by the Governing Committee of the BDFA (see para. 1.5), the day-to-day operation of the BDF is conducted by the ND. Audit review of the governance and accountability of the BDF revealed room for improvement. The audit findings are set out in paragraphs 3.3 to 3.8.

Need to review declaration of interests

3.3 According to the Home Affairs Bureau's memorandum issued to B/Ds in August 2005 on the guidelines for declaration of interests for advisory and statutory bodies, a governing board or committee has to properly manage conflicts of interest of its members. Two different systems for declaration of interests have been developed, as follows:

- (a) ***One-tier reporting system.*** If a member of a board or committee perceives a potential conflict of interest in a matter placed before the board or committee, he/she should make a full disclosure of his/her interest; and
- (b) ***Two-tier reporting system.*** All members of a board or committee should disclose their general pecuniary interests on appointment to the board or committee and annually thereafter, in addition to the report of conflicts of interest as and when they arise.

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The two-tier reporting system should be adopted for bodies which have a high degree of management and financial autonomy, extensive executive powers in matters of public interest, or control and disbursement of substantial public funds. B/Ds are requested to take into account the nature and special needs of each body in deciding which of the two systems to adopt.

3.4 The Governing Committee of the BDFA has adopted the one-tier reporting system for declaration of interests by members, which only requires a member to declare a conflict of interest as and when it arises. Declarations of interests are not required to be made upon joining the Governing Committee and annually thereafter. The BDFA is responsible for overseeing the administration of the BDF with a fund balance of \$4.3 billion as at 31 March 2015 and approval of grants averaging \$80 million a year (see para. 5.4). To a certain extent, the BDFA meets the criteria for the adoption of the two-tier reporting system (see para. 3.3). In Audit's view, the ND needs to review the adequacy of adopting the one-tier reporting system to maintain public confidence in the impartiality of members' advice to the Governing Committee. Meanwhile, the ND needs to strengthen its monitoring of the reporting by members under the present one-tier reporting system to prevent undeclared potential conflicts.

Need to review performance measurement and reporting

3.5 Developing and reporting performance measures help enhance government performance, transparency and accountability. However, Audit noted that there were no performance targets developed for the BDF. Some performance indicators set in specific projects were reported in internal documents only and not accessible to the public. In Audit's view, the ND needs to review the performance measurement and reporting of the BDF and make improvement as appropriate (e.g. developing outcome targets and indicators).

Need to enhance transparency, accountability and ease of use/access to information

3.6 ***Information not provided to LegCo.*** Regular reporting of the financial performance, financial position and operation of the BDF to LegCo helps enhance transparency and accountability. Audit noted that the financial statements and annual reports of the BDF were not tabled in LegCo. In the LegCo Panel on Security and FC discussions on the proposed injection of \$3 billion into the BDF in

2010, some LegCo Members requested the Government to provide more information on the operation of the BDF to the Panel (Note 33). However, up to August 2015, the ND had not done so. In view of the substantial amount of public monies vested in the BDF, the ND needs to consider tabling the annual financial statements and annual reports of the BDF in LegCo and providing the Panel on Security with the requested information on the operation of the BDF.

3.7 *Need to disclose more information on BDF website.* Audit also noted that the annual budgets, financial statements and annual reports of the BDF were not uploaded to the BDF website for public inspection. For the meetings of the Governing Committee of the BDFA, only the agendas were uploaded to the website. As the BDF is a key vehicle for the Government to support anti-drug work initiated or undertaken by the community partners, the ND needs to disclose more information on the BDF website for easy access by all stakeholders.

3.8 *Recent development.* In February 2015, the Financial Services and the Treasury Bureau (FSTB) issued Financial Circular No. 2/2015 promulgating a Guide on management of funding schemes. The Guide lays down the good practices in respect of the governance, fund administration, performance management, transparency and accountability, conflict of interest and investment management. In Audit's view, the ND, in consultation with the Governing Committee of the BDFA, needs to make reference to the Guide in improving the governance and accountability of the BDF.

Audit recommendations

3.9 **Audit has recommended that the Commissioner for Narcotics should, in consultation with the Governing Committee of the BDFA and with reference to the Guide on management of funding schemes issued by the FSTB:**

Note 33: *In the LegCo Panel on Security discussion in April 2010, the Deputy Chairman suggested the Government to provide in its future paper information about the top 20 applications with the highest level of funding. In the FC discussion in May 2010, the Chairman requested the Government to provide progress reports to the Panel on the operation of the BDF, including arrangements for assessing applications, monitoring of projects by the ACAN members and staffing of the BDF secretariat (i.e. the ND).*

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- (a) **review the adequacy of adopting the one-tier reporting system for declaration of interests for the Governing Committee;**
- (b) **strengthen the monitoring of the reporting by members of the Governing Committee under the present one-tier reporting system to prevent undeclared potential conflicts;**
- (c) **review the performance measurement and reporting of the BDF and make improvement as appropriate (e.g. developing outcome targets and indicators);**
- (d) **consider tabling the annual financial statements and annual reports of the BDF in LegCo and providing the Panel on Security with the requested information on the operation of the BDF; and**
- (e) **disclose more information about the BDF on the website for easy access by all stakeholders.**

Response from the Government

3.10 The Commissioner for Narcotics agrees in principle to examine the audit recommendations in consultation with the Governing Committee of the BDFA and the ACAN. She has said that:

- (a) the ND will continue to closely monitor the operation of the BDF and projects funded by the BDF, and make improvements as and when required;
- (b) the ND will review the adequacy of adopting the one-tier reporting system for declaration of interests for the Governing Committee and strengthen the monitoring of the reporting by relevant members under the present one-tier reporting system;
- (c) the BDF has an established mechanism for monitoring performance measurement and evaluation of funded projects (e.g. project-based performance measures). Such monitoring efforts will continue, taking into account the relevant guidelines issued by the FSTB; and

- (d) the BDF is incorporated under the Companies Ordinance and will need to comply with the requirements under the Ordinance, including requirements on submission of annual financial statements and annual reports to the Companies Registry. Such information is accessible by the public. The ND will, taking into account these arrangements under the law, explore the audit recommendations regarding the provision of information to LegCo and the Panel on Security, and the disclosure of BDF information on the Internet.

Funding for projects

3.11 The BDF provides funding support to projects under the Regular Funding Scheme, the Special Funding Scheme for DTRCs, the HSP(DT) and the ACABP (see para. 1.7). According to the FC paper submitted in 2010 for the government injection of \$3 billion into the BDF (hereinafter referred to as the 2010 FC paper), the SB stated that the injection would enable the BDF to give more financial support to anti-drug projects under the Regular Funding Scheme, the Special Funding Scheme and the school-based programmes for developing students' anti-drug knowledge and skills (i.e. the HSP(DT)). Upon the FC's approval in May 2010, the injection of \$3 billion into the BDF was made in June 2010.

Need to solicit more projects to meet funding objectives of the Regular Funding Scheme

3.12 Regular funding is provided to support community-driven anti-drug activities in the three areas of preventive education and publicity, treatment and rehabilitation, and research. Since the injection of \$3 billion into the BDF in 2010, the maximum level of grant for each approved project under the Regular Funding Scheme has been raised from \$3 million to \$6 million (Note 34). For each round of funding exercise, the ND draws up a list of priority areas (under each of the

Note 34: *For projects that the BDF considers exceptionally innovative, the maximum grant has increased from \$5 million to \$10 million.*

Management of the Beat Drugs Fund

three areas of preventive education and publicity, treatment and rehabilitation, and research) to solicit projects to address the prevailing drug abuse trend. From 2010 to 2014, six rounds of regular funding exercises were conducted (two rounds were conducted in 2010 and one round was conducted each year from 2011 to 2014) with a total of 186 projects approved. On average, about 31 projects with total funding of around \$40.8 million were approved in each round of funding exercise. Audit noted that during the five-year period from 2010 to 2014, the number of annual applications generally decreased from 349 (239 in the first round and 110 in the second round) to 54 (see Table 1). While the approved amount of \$42 million in 2014 was comparable to the average amount of \$40.8 million per funding exercise from 2010 to 2014, it only constituted 6% of the \$682 million available from the BDF for funding projects in that year. In Audit's view, the ND, in consultation with the Governing Committee of the BDFA, needs to ascertain the reasons for the decrease in funding applications with a view to devising effective measures to solicit more projects to meet the funding objectives of the Regular Funding Scheme.

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Table 1
Regular Funding Scheme
(2010 to 2014)

Item	2010 (Note 1)			2011	2012	2013	2014	Total
	1st round	2nd round	Subtotal					
Number of applications	239	110	349	100	64	72	54	639
Number of projects approved:								
(a) preventive education and publicity	42	7	49	1	4	7	7	68
(b) treatment and rehabilitation	7	4	11	7	9	11	9	47
(c) research	4	2	6	1	2	1	5	15
(d) mixed types (Note 2)	12	8	20	4	6	16	10	56
Overall	65	21	86	13	21	35	31	186
Total amount approved (\$ million)	54	32	86	24	32	61	42	245
Amount available from BDF (Note 3) (\$ million)	47	111	158	56	353	605	682	N/A

Source: ND records

Note 1: One round of funding exercise was conducted each year except for 2010 (the year of government injection) in which two rounds of funding exercises were conducted.

Note 2: Mixed types projects comprised activities that were related to more than one of the three areas of anti-drug programmes.

Note 3: This was the amount available for funding projects under all schemes of the BDF. It was calculated by subtracting the capital injected into the BDF, and commitments for ongoing projects and other activities from the fund balance of the BDF. This information was provided by the ND to the Governing Committee of the BDF when considering the applications under the Regular Funding Scheme in the respective year.

Management of the Beat Drugs Fund

3.13 From 2010 to 2014, a total of 59 priority areas were promulgated in six funding exercises (i.e. about 10 priority areas in each funding exercise). However, there were no approved projects for 10 (17%) priority areas, of which seven were related to research (see Appendix E). It should be noted that:

- (a) priority area projects are meant to address the prevailing drug abuse trend. It is important that they are implemented in a timely manner; and
- (b) research studies are an important part of the five-pronged strategy to tackle the drug abuse problem as they provide a solid foundation to facilitate the formulation of evidence-based anti-drug strategy. For example, in 2010 and 2011, the development of a qualitative module for the SDAMS which would help address the hidden drug problem was set as a priority area. In each of the two years, a proposed project in this priority area was received. However, both projects could not obtain funding support in the competition against other applications (including non-priority area projects of other areas, e.g. treatment and rehabilitation) for grant allocation (see para. 4.13).

3.14 The ND needs to strengthen efforts to encourage applicants to propose more worthy projects in specific priority areas to address prevailing drug abuse problem in a timely manner. In this connection, a review of the grant allocation arrangement is also necessary to ensure that sufficient recognition is given to priority area projects vis-à-vis non-priority area projects.

Need to solicit more projects to meet funding objectives of the Special Funding Scheme

3.15 The Special Funding Scheme aims to provide financial assistance to the DTRCs to carry out capital works. In the 2010 FC paper, the SB stated that:

- (a) as at April 2010, of the 40 DTRCs, 19 (48%) were operating under licences issued under the Drug Dependent Persons Treatment and Rehabilitation Centres (Licensing) Ordinance and 21 (52%) were operating under Certificates of Exemption issued by the Director of Social Welfare (see para. 1.7(b)). Of the 21 DTRCs, 15 had indicated that they might possibly apply for funding under the Special Funding Scheme for carrying out capital works to meet licensing standards; and

- (b) the scope of the Special Funding Scheme would be expanded to cover potential new players.

3.16 In May 2011, the maximum level of grant under the Special Funding Scheme was raised from \$3 million to \$50 million (Note 35). The scope of the Scheme was also expanded to cover fees for engaging authorised experts and professionals, and enhancing service capacity and sophistication (Note 36). However, Audit noted that from January 2010 to June 2015, only six DTRCs had obtained funding support under five projects from the Scheme (see Projects 1 to 5 at Appendix F). Audit also noted that, as at June 2015:

- (a) of the 39 DTRCs (Note 37), 24 were operating under licences and 15 under Certificates of Exemption (see para. 3.15(a)). Five DTRCs obtained the licences after May 2010, and only two of which had sought funding from the Special Funding Scheme, i.e. one obtained \$0.8 million in 2006 and the other obtained \$9.9 million in 2012 (see Project 1 at Appendix F);
- (b) of the 15 DTRCs operating under Certificates of Exemption, five obtained a total grant of \$104.2 million under four projects from the Special Funding Scheme for conducting feasibility studies or carrying out capital works to enhance their service capacity or sophistication. They had yet to obtain the licences (see Projects 2 to 5 at Appendix F). Another DTRC had submitted an application for funding support, which was being processed by the ND;

Note 35: *For projects of estimated cost below \$6 million, full funding will be provided. For projects of \$6 million to \$7.5 million, a grant of \$6 million will be provided. For projects of more than \$7.5 million, 80% of the estimated costs will be granted subject to a ceiling of \$50 million.*

Note 36: *Before May 2011, the Special Funding Scheme could only be used for financing capital works for meeting licensing standards.*

Note 37: *In May 2014, two DTRCs operated by an NGO were reprovioned in a new DTRC which obtained a licence.*

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- (c) many DTRCs operating under Certificates of Exemption had encountered difficulties in planning, land issues, relocation or project implementation in enhancing their service capacity or sophistication for obtaining licences; and
- (d) the scope of the Special Funding Scheme had not been expanded to cover potential new players as specified in the 2010 FC paper (see para. 3.15(b)).

3.17 It is important that all DTRCs comply with the licensing requirements to meet the present day requirements in various aspects (such as management, staffing and safety measures) and to protect the well-being of persons undergoing treatment in these DTRCs. In view of the difficulties encountered by the DTRCs still operating under Certificates of Exemption (see para. 3.16(c)), the ND needs to continue to provide assistance for the DTRCs to relocate and/or upgrade their facilities to meet the licensing standards. Funding support from the Special Funding Scheme should be provided for these DTRCs where necessary. The ND also needs to review the need for expanding the Scheme to cover new players as specified in the 2010 FC paper.

Audit recommendations

3.18 **Audit has *recommended* that the Commissioner for Narcotics should, in consultation with the Governing Committee of the BDFA:**

Regular Funding Scheme

- (a) **ascertain the reasons for the decrease in funding applications with a view to devising effective measures to solicit more projects to meet the funding objectives of the Regular Funding Scheme;**
- (b) **strengthen efforts to encourage applicants to propose more worthy projects in specific priority areas to address prevailing drug abuse problem in a timely manner;**

- (c) **review the grant allocation arrangement to ensure that sufficient recognition is given to priority area projects vis-à-vis non-priority area projects;**

Special Funding Scheme

- (d) **continue to provide assistance for the DTRCs still operating under Certificates of Exemption to upgrade and/or relocate their facilities to meet the licensing standards; and**
- (e) **review the need for expanding the Special Funding Scheme to cover new players as specified in the 2010 FC paper.**

Response from the Government

3.19 The Commissioner for Narcotics agrees in principle to explore the audit recommendations. She has said that:

Regular Funding Scheme

- (a) the ND maintains close dialogue with different stakeholders to encourage applications for funding to support worthy projects and ensure that the BDF will be able to take into account the needs of the evolving drug scene. The implementation of the ACABP is an example of initiatives to more fully utilise the fund to help address the hidden drug abuse problem;

Special Funding Scheme

- (b) the ND has been actively assisting the DTRCs still operating under Certificates of Exemption in relocating and/or upgrading their facilities in-situ with a view to fulfilling the statutory licensing requirements. This is a lengthy and complex process involving site search, soliciting local support, assisting the NGOs in seeking the necessary planning and land

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use permissions, supporting the NGOs in monitoring the project feasibility study and building design and securing funding support, advising on the tender process, as well as monitoring the use of funds and construction works with the support of the Architectural Services Department. Except for the need for site search, the DTRCs that require in-situ upgrading will have to manage essentially the same challenges;

- (c) the ND will continue to coordinate efforts of various B/Ds in the whole process and where necessary, to facilitate communication between the NGOs and the B/Ds; and
- (d) the ND will review the need for expanding the scope of the Special Funding Scheme having regard to its operational experience in the past five years and the service needs.

PART 4: ADMINISTRATION OF BEAT DRUGS FUND PROJECTS

4.1 This PART examines the following issues relating to the administration of the BDF projects:

- (a) control over projects (paras. 4.3 to 4.12);
- (b) administration of Regular Funding Scheme projects (paras. 4.13 to 4.21);
and
- (c) administration of Special Funding Scheme projects (paras. 4.22 to 4.28).

4.2 The BDF provides grants for organisations and individuals to conduct anti-drug projects. The grant process generally includes inviting grant applications, vetting and assessing grant applications, entering into grant agreements, making grant payments, monitoring and implementation of approved projects, and evaluating the effectiveness of completed projects.

Control over projects

4.3 In conducting the projects, grantees are required to comply with the terms and conditions laid down in the application guidelines, funding agreements and/or undertakings signed by the grantees (hereinafter collectively referred to as grant agreements). As the grants involve public monies, the grant agreements need to contain proper control to ensure that the grants are spent appropriately.

4.4 The BDF uses six types of grant agreements (see Appendix G) for the projects under the Regular Funding Scheme, the Special Funding Scheme and the HSP(DT) (Note 38). Audit examination of the terms and conditions of the grant

Note 38: *As the ACABP is implemented through the 18 District Offices of the Home Affairs Department which is a government department, no grant agreement is imposed.*

Administration of Beat Drugs Fund projects

agreements revealed room for improvement. The audit findings are set out in paragraphs 4.5 to 4.10 and Appendix G.

Need to improve control over projects

4.5 ***Auditors' reports.*** Four of the six types of grant agreements involving the grant of over \$500,000 per project required the submission of an auditor's report. While one of them required grantees to expand the scope of their auditors' work to cover the grantees' compliance with key terms and conditions laid down in the grant agreements, the other three did not contain such requirement.

4.6 ***Recruitment of staff.*** While procedures for recruiting project staff (e.g. open recruitment) helped ensure the proper use of project funds in staff recruitment, they were not specified in five of the six types of grant agreements.

4.7 ***Unallowable costs and administrative expenses.*** Specifying unallowable items (e.g. financial reward to participants and personal electronic devices) and imposing restrictions on charging administrative expenses to project funds would help ensure the proper use of project funds. It was noted that they were not specified in all the six types of grant agreements.

4.8 ***Conflicts of interest.*** Grant agreements should specify requirements on avoiding and declaring conflicts of interest (e.g. related party transactions). However, two of the six types of grant agreements did not contain such requirements.

4.9 ***Records retention period.*** While one of the six types of grant agreements required keeping records for seven years (Note 39), the other five required keeping records for three years only.

Note 39: *According to the Treasury's Standing Accounting Instructions, accounting records of B/Ds should generally be retained for at least seven years.*

4.10 In Audit's view, the ND, in consultation with the Governing Committee of the BDFA, needs to review the issues on the control over projects as mentioned in paragraphs 4.5 to 4.9 and take appropriate improvement measures with reference to the Guide on management of funding schemes issued by the FSTB (see para. 3.8).

Audit recommendations

4.11 **Audit has *recommended* that the Commissioner for Narcotics should, in consultation with the Governing Committee of the BDFA and with reference to the Guide on management of funding schemes issued by the FSTB:**

- (a) **review the issues on the controls of projects, including:**
 - (i) **requiring grantees to expand the audit scope of their auditors to cover grantees' compliance with key terms and conditions in the grant agreements;**
 - (ii) **specifying requirements on recruitment of project staff;**
 - (iii) **specifying the unallowable costs and restricting the charging of administrative expenses to project funds;**
 - (iv) **specifying requirements on avoiding and declaring conflicts of interest; and**
 - (v) **specifying the records retention period; and**
- (b) **based on the review results in (a) above, take appropriate measures to improve the control over projects.**

Response from the Government

4.12 The Commissioner for Narcotics agrees in principle to explore, in consultation with the Governing Committee of the BDFA, the audit recommendations where appropriate. She has said that individual schemes under the BDF have their own defined scope, modus operandi, and target applicants and service recipients. The issues on the control over projects will invariably need to take into account the varying circumstances of the funding schemes. For example, it will be desirable to leave flexibility for the BDF assessment panels and/or relevant B/Ds to consider on a case-by-case basis the unallowable costs and funding support on administrative expenses for BDF funded projects.

Administration of Regular Funding Scheme projects

4.13 The Regular Funding Scheme supports community-driven anti-drug activities conducted by organisations or individuals in the areas of preventive education and publicity, treatment and rehabilitation, and research in response to the prevailing drug abuse trend and community needs. Applications for funding of projects are normally invited once a year. After receiving applications, the ND seeks advice from the relevant B/Ds on whether they will support the applications. Applications not supported by the majority (i.e. 50% or more) of the B/Ds will be screened out. The screened-in applications will be passed to respective vetting panels for assessment using the 10-point scoring system. The assessed applications will be submitted to the ACAN for seeking its advice before submission to the Governing Committee of the BDFA for approval.

4.14 Following the \$3 billion injection into the BDF in 2010, the ND has introduced measures to enhance the monitoring of projects (Note 40) funded under the Regular Funding Scheme, including:

- (a) inviting two to three members of the ACAN or its sub-committees to take part in monitoring the progress of projects which receive a grant of more than \$6 million or last for more than two years; and

Note 40: *Research projects are monitored directly by the Research Advisory Group.*

- (b) conducting an overall examination on the effectiveness of individual projects by the ND.

4.15 Between 2010 and 2014, a total of 639 applications were received and 186 (29%) projects with total funding of \$245 million were approved. As at June 2015, of the 186 approved projects, 7 were withdrawn by grantees (Note 41), 103 (55%) were completed and the remaining 76 were still in progress. Audit examination of the application arrangement and implementation of projects revealed room for improvement as set out in paragraphs 4.16 to 4.20.

Project application

4.16 *Need to develop marking scheme for vetting panel members.* In the assessment of project applications, each vetting panel member gave an overall score for each application taking into account various factors such as benefits to anti-drug cause, number of beneficiaries and reasonableness of the proposed budget. However, no marking scheme was drawn up to facilitate panel members' assessment. According to the Independent Commission Against Corruption (ICAC) Best Practice Checklist on Strengthening Integrity and Accountability — Administration of Government Funds, a marking scheme with weightings and passing marks for each assessment criterion should be drawn up for vetting panel members. In Audit's view, the ND needs to consider developing such a marking scheme to ensure fairness, consistency and objectivity in the assessment of applications.

4.17 *Need to provide more support to encourage applications.* From 2010 to 2014, the number of applications under the Regular Funding Scheme was declining (see para. 3.12). There is a need to encourage potential applicants to propose more worthy projects by fostering collaborative relationship with them:

Note 41: *The reasons for the withdrawals included reduced project budgets which the grantees considered insufficient for conducting the projects.*

Administration of Beat Drugs Fund projects

- (a) Audit noted that during the application period, the ND would organise a briefing session for potential applicants to brief them on the objectives of the BDF, priority areas and assessment criteria. In 2015, of over 1,900 parties (including potential applicants such as relevant NGOs and schools, and previous applicants) invited, about 60 attended the briefing session. As any individuals and organisations (including B/Ds) can apply for funding under the Regular Funding Scheme, there is a need to publicise details of the briefing sessions (e.g. in the press releases to invite applications each year) so that more potential applicants can attend the briefing sessions; and
- (b) according to the ICAC Best Practice Checklist on Strengthening Integrity and Accountability — Administration of Government Funds, unsuccessful applicants should be notified in writing with reasons for the decisions. The ND had not adopted such practice. According to the feedback of some participants, they also wished to know the reasons for their unsuccessful applications. According to the ND, it had engaged in active exchanges with the parties concerned to study their applications in details. All applicants had also been invited to contact the ND if they wished to discuss their applications. In Audit's view, the ND should explore giving more support to help unsuccessful applicants make improvement in their future project proposals.

Project implementation

4.18 For each project, an implementation schedule including the commencement and completion dates will be drawn up to facilitate monitoring the projects. For the 179 projects approved (excluding 7 withdrawn projects — see para. 4.15) between 2010 and 2014, Audit noted that, as at June 2015, a total of 17 (9%) projects had encountered delays, of which five had delays for more than one year. Cases 1 and 2 are examples of such delayed projects. As both cases were not under the monitoring of the ACAN or its sub-committee members (see para. 4.14(a)), the ACAN might not be aware of their delays. Significant delays in implementing anti-drug activities (especially those in priority areas) might affect the delivery of the anti-drug services. In Audit's view, the ND needs to inform the Governing Committee of the BDF and the ACAN of projects which have encountered significant delays or implementation problems, and seek their advice where necessary.

Case 1

Project delay due to technical problems

In 2011, Project 6 was approved with funding of \$1.6 million for optimising a hair drug testing platform and providing free hair drug testing for the NGOs and schools for two years from October 2011 to September 2013. However, due to the long time taken to obtain accreditation for the test, the project was only expected to be completed in January 2016.

Source: ND records

Case 2

Project delay due to failure to obtain approval for works

In 2011, Project 7 was approved with funding of \$2.3 million for constructing a vocational training room in a DTRC (Note). The project was targeted for completion in June 2014. However, up to August 2015, construction work had not started as the grantee had not obtained from the Lands Department the required approval related to the development restriction of the DTRC site.

Source: ND records

Note: Before May 2011, applicants could only apply for funding under the Regular Funding Scheme to enhance service capacity of DTRCs.

4.19 Audit examination of 47 selected ongoing or completed projects revealed the following issues:

- (a) ***Delay in submission of progress reports, final reports and auditors' reports.*** In 12 (26%) of the 47 projects under audit examination, there were delays of over six months in the submission of progress reports,

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final reports or auditors' reports as at June 2015 (Note 42). Such delays will impair the ND's ability to timely monitor the progress of projects, evaluate the effectiveness of projects against deliverables, and check whether project funds have been used for the approved purposes. In Audit's view, the ND needs to consider taking regulatory actions in cases of serious delays in accordance with the funding agreement provisions; and

- (b) ***A grantee's lack of expertise/support in undertaking a project.*** For Project 8, a total grant of \$0.94 million was approved in November 2011 for acquiring a vessel for transporting DTRC staff and residents between two islands. The grantee in April 2012 purchased a vessel which was found to be defective in July 2012 because the engine did not function properly (Note 43). In light of this incident, the ND needs to tighten the vetting of funding applications for the acquisition of specialised equipment to ensure that the applicants have demonstrated that they have the necessary expertise/support to undertake the projects before giving funding support.

Audit recommendations

4.20 **Regarding the administration of Regular Funding Scheme projects, Audit has recommended that the Commissioner for Narcotics should, in consultation with the Governing Committee of the BDFA:**

Project application

- (a) **consider developing a marking scheme with weightings and passing marks for each assessment criterion for vetting panel members to assess the project applications;**

Note 42: *For the longest delay project, the yearly and final audited financial statements had been overdue for about 3 years and 2 years respectively. In the event, the ND withheld payment of grants to the grantee in accordance with the provisions in the funding agreement.*

Note 43: *The grantee reported the case to the HKPF. After investigation by the HKPF, no criminal prosecution was undertaken.*

- (b) **publicise details of the briefing sessions on the Regular Funding Scheme so that more potential applicants can attend the briefing sessions;**
- (c) **explore giving more support to help unsuccessful applicants make improvement in their future project proposals;**

Project implementation

- (d) **inform the Governing Committee and the ACAN of projects which have encountered significant delays or implementation problems, and seek their advice where necessary;**
- (e) **consider taking regulatory actions against grantees in cases of serious delays in submission of their progress reports, final reports or auditors' reports in accordance with funding agreement provisions; and**
- (f) **tighten the vetting of funding applications for the acquisition of specialised equipment to ensure that the applicants have demonstrated that they have the necessary expertise/support to undertake the projects before giving funding support.**

Response from the Government

4.21 The Commissioner for Narcotics agrees in principle to examine the audit recommendations. She has said that:

- (a) the ND engages in active exchanges with applicants, successful and unsuccessful alike, to go over with them their applications. The ND will continue such efforts, with a view to helping applicants to make improvements in their future project proposals; and
- (b) a monitoring mechanism has been set up to closely monitor the progress of projects (including significant delays and implementation problems) and achievement of output/outcome indicators (see para. 4.14(a)). Under the current arrangement, grantees of projects encountering significant

Administration of Beat Drugs Fund projects

delays and implementation problems will be invited to present their cases at the meetings of the ACAN, its sub-committees or the Research Advisory Group, as appropriate, to keep members informed of the situation and for members to consider suggested remedial actions. The Governing Committee of the BDFFA will also be suitably informed. The ND will continue with the arrangement and propose refinements where appropriate.

Administration of Special Funding Scheme projects

4.22 The objective of the Special Funding Scheme is to provide financial assistance to the DTRCs for carrying out capital works to meet the licensing standards or enhance their service capacity (see para. 1.7(b)). The Scheme is open to applications all year round. Similar to the Regular Funding Scheme, the ND will seek advice on the applications from B/Ds first and then submit them to the ACAN and the Governing Committee of the BDFFA for consideration.

4.23 Between January 2010 and June 2015, five projects were approved under the Special Funding Scheme with total funding of \$114.1 million (see Appendix F). As at August 2015, only one project (i.e. Project 1 at Appendix F) was completed. Audit examination of four projects (i.e. Projects 1 to 4 at Appendix F) revealed areas for improvement as set out in paragraphs 4.24 to 4.27.

4.24 *Difficulties in meeting the tendering requirement.* According to the Special Funding Scheme Manual, for capital works exceeding \$1 million, grantees should obtain at least 10 tenders. Audit notes that such a requirement is more stringent than that applicable to government works projects (Note 44). As the grantees have no control over the market response, the requirement may not be always met. For example, for Project 3, only six tenders were obtained. In Audit's view, the ND needs to review the 10-tender requirement by making reference to the government practice.

Note 44: *There is no such requirement in the Government's Stores and Procurement Regulations.*

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4.25 *Lack of competition in engaging consultants.* For a works project, it is common that the grantee will appoint an authorised person to conduct a technical feasibility study before seeking funding from the BDF. To facilitate implementation of the project (hereinafter referred to as the facilitation arrangement), the grantee, with prior approval of the BDFA, is allowed to retain the authorised person to perform the consultancy work on detailed designs and construction administration without going through another consultant selection process. In this regard, Audit noted that:

- (a) for Projects 2, 3 and 4 which had engaged the authorised persons, the grantees concerned had applied for the facilitation arrangement. Approval was given to Projects 2 and 3;
- (b) in considering Project 4, a member of the Governing Committee of the BDFA expressed concerns on the facilitation arrangement because it did not align with the government practice of ensuring fairness and competition in procurement. In the event, the grantee withdrew the application for the facilitation arrangement; and
- (c) in March 2015, the ND undertook to review the facilitation arrangement and report to the Governing Committee in due course.

4.26 *Need to closely monitor the progress of Project 4.* For Project 4, the grantee was granted \$47.1 million (i.e. about 80% of the estimated project cost) for the construction of facilities for two DTRCs on the same site on Lantau Island. The land lease of the site was for a period of five years, including the estimated construction period of one and a half years. In other words, the new facilities might only be used for three and a half years. According to the ND:

- (a) the project was considered worth implementing as there was no other more feasible or economical alternative after examining over 300 sites; and
- (b) it was conscious of possible concerns about the cost-effectiveness of investing in a project for temporary facilities, which was not intended for the purpose of meeting the licensing standards of the two DTRCs.

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Given that the land lease is on a short-term basis, any delay in the construction works will significantly reduce the useful life of the facilities. In Audit's view, the ND needs to closely monitor the works progress to ensure that the project is completed on time. The ND also needs to provide necessary assistance to the grantee in case of difficulties encountered in the project implementation.

Audit recommendations

4.27 **Regarding the administration of Special Funding Scheme projects, Audit has recommended that the Commissioner for Narcotics should, in consultation with the Governing Committee of the BDF:**

- (a) **review the requirement on obtaining at least 10 tenders for works projects with reference to the government practice;**
- (b) **expedite action on the review of the facilitation arrangement with a view to providing clear guidance to potential applicants; and**
- (c) **closely monitor the works progress of Project 4 to ensure that the project is completed on time and provide necessary assistance to the grantee in case of difficulties encountered in the project implementation.**

Response from the Government

4.28 The Commissioner for Narcotics generally agrees with the audit recommendations.

PART 5: WAY FORWARD

5.1 This PART explores the way forward for the anti-drug work of the ND and the BDF.

Efforts to combat drug abuse

5.2 It is encouraging to note that the reported number of drug abusers decreased by 37% from 2005 to 2014. However, the worsening hidden drug abuse problem calls for sustained efforts to arrest this trend. According to the statistics of the CRDA, the proportion of young adults (aged 21 to 35) among newly reported drug abusers was 55% in 2014 and half of the newly reported drug abusers aged 21 and above had abused drugs for at least 7.2 years. This young adult group, however, was mostly outside the reach of the school network. In its effort to combat the hidden drug abuse problem, the ND needs to accord priority to young adult drug abusers.

5.3 As shown in Figure 1 in paragraph 1.9, the number of reported drug abusers has decreased since 2008, particularly in the youth group under the age of 21. In Audit's view, the ND needs to conduct a review of the contributing factors to the decrease (such as change of drug-taking pattern of abusers and launch of new measures such as the HSP(DT)) to shed light on the future direction of anti-drug work.

Increase in fund balance of the BDF

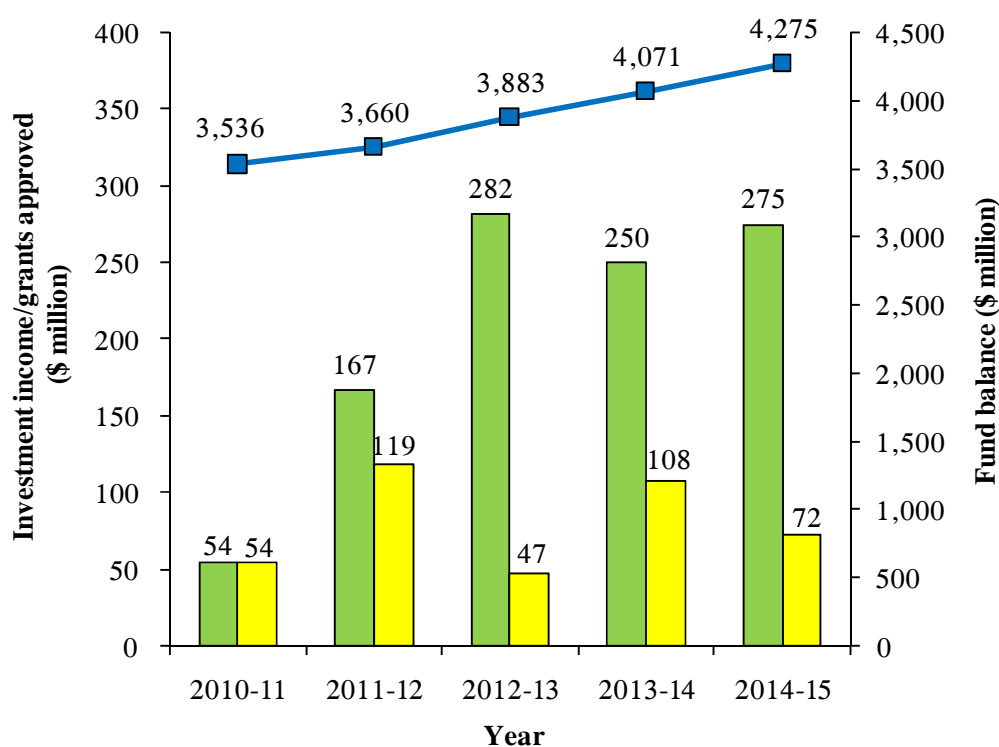
5.4 During the five-year period from 2010-11 to 2014-15 after the government injection of \$3 billion, the BDF generated total investment income of \$1,028 million (averaging \$205.6 million a year). As shown in paragraphs 3.12 and 3.16, the number of applications under the Regular Funding Scheme was generally declining and that under the Special Funding Scheme was also lower than expected. As a result, the total grant approved only amounted to \$400 million (averaging \$80 million a year). As at 31 March 2015, the fund balance of the BDF increased

Way forward

to \$4.3 billion (see Figure 6 — Note 45). As the BDF is a key vehicle for the Government to support anti-drug work initiated or undertaken by community partners, there is a need to appeal to their support in making better use of the BDF funding schemes in the anti-drug cause.

Figure 6

**Investment income, grants approved and fund balance of the BDF
(2010-11 to 2014-15)**



Legend: —■— Fund balance
 ■ Investment income (Note)
 ■ Grants approved

Source: ND records

Note: Injection of \$3 billion into the BDF was made in June 2010 (see para. 3.11).

Note 45: As at August 2015, the audited financial statements of the BDF for the year ended 31 March 2015 had not been issued. According to the ND, the investment income, grants approved and fund balance of the BDF for 2014-15 were \$275 million, \$72 million and \$4,275 million respectively.

5.5 *Need to conduct an overall review of the BDF.* According to the 2008 Task Force Report, it is important to assess the overall effectiveness of the BDF. The last review of the BDF was conducted in 1999. According to the ND, the matter had since been kept under regular monitoring through different channels. With a lapse of seven years after the issue of the 2008 Task Force Report, it is opportune for the ND to conduct an overall review of the BDF with a view to evaluating its effectiveness, reviewing the allocation of resources and formulating future strategies for the BDF, taking into account the findings in this Audit Report.

Audit recommendations

5.6 *Audit has recommended that the Commissioner for Narcotics should:*

- (a) **continue to closely monitor the drug situation taking into account the need to:**
 - (i) **accord priority to young adult drug abusers in combating the hidden drug abuse problem; and**
 - (ii) **conduct a review of the contributing factors to the decline in the number of drug abusers to shed light on the future direction of anti-drug work; and**
- (b) **in consultation with the Governing Committee of the BDFCA, conduct an overall review of the BDF with a view to evaluating its effectiveness, reviewing the allocation of resources and formulating future strategies for the BDF.**

Response from the Government

5.7 The Commissioner for Narcotics agrees to continue to closely monitor the drug situation, in particular the hidden drug abuse problem, in consultation with the ACAN. She has said that:

Way forward

- (a) the ND will take into account the latest drug trend and changes in the number and characteristics of drug abusers. In light of the latest drug situation, special attention will be paid to the issues posed by the rising proportion of drug abusers in their young adulthood. The relevant strategies have been set out in the Seventh Three-year Plan and the preventive education and publicity strategic directions for 2016; and

- (b) the ND, in consultation with the ACAN and the Governing Committee of the BDF, monitors the operation of the BDF closely, including reviewing on a regular basis allocation of resources and effectiveness of projects funded. This provides an important basis for mapping out the strategies of the BDF and continuous self-improvement. Such efforts will continue and the ND will review the need and timing for conducting an overall review at an appropriate juncture.

**Analysis of student and parent participation in
the Healthy School Programme with a Drug Testing Component
(2011/12 to 2014/15)**

Item	2011/12	2012/13	2013/14	Between 2011/12 and 2013/14		2014/15
				Total	Percentage of increase/ (decrease)	
Number of schools participating in the HSP(DT) (a)	43 (Note 1)	53	63	159	47%	71
Number of students in the participating schools (b)	34,958	42,987	47,648	125,593	36%	50,938
Number of students joining the drug testing (c)	16,789	19,318	21,083	57,190	26%	21,975
Percentage of students joining the drug testing (d) = (c)/(b) × 100%	48%	45%	44%	N/A	N/A	43%
Number of anti-drug activities organised for students (e)	584	526	546 (Note 2)	1,656	(7%)	(Note 3)
Number of students participated in activities organised for them (f)	99,764	73,800	79,444	253,008	(20%)	
Number of anti-drug activities organised for/with participation of parents (g)	30	38	55	123	83%	
Number of participants in the activities organised for/with participation of parents (h)	795	1,327	4,296	6,418	440%	
Amount approved (\$ million) (i)	\$15.5	\$15.8	\$37.1 (Note 4)	\$68.4	139%	\$9.9 (Note 4)

Source: ND records

Note 1: In 2011/12, funding was approved for 45 schools to implement the HSP(DT). One school subsequently decided not to participate in the programme and another school closed down.

Note 2: According to the ND, in 2013/14, 54 of the 63 participating schools chose to run the programme for two consecutive school years from 2013/14 to 2014/15. For these schools with planning and organisation of the anti-drug activities straddling two school years, the figures for 2013/14 were provisional, i.e. covering only half of the project period. Final figures will be available at the end of 2015.

Note 3: Figures for 2014/15 are not yet available.

Note 4: Some of the approved funding in 2013/14 covered two-year programmes which would last up to 2014/15 (see Note 2).

**Public awareness of anti-drug messages on
 hotline service “186 186” and instant messaging service “98 186 186”
 (2013 and 2014)**

Anti-drug message		Publicity period	Overall awareness rate	
			2013	2014
Hotline service “186 186”				
1	Drug abusers can call “186 186” for help	Periodically since June 2012	49%	52%
2	Parents, families or the public can call “186 186” to help drug abusers seek treatment and rehabilitation	Periodically since July 2012	42%	43%
Instant messaging service “98 186 186”				
3	Drug abusers can make use of “98 186 186” anti-drug helpline to seek help	Periodically since June 2014	N/A	21%

Source: ND records

**Discrepancies in voluntary drug testing figures
(2011/12 to 2013/14)**

Voluntary drug testing	Figures provided to LegCo Members in the examination of Estimates 2015-16 in March 2015			Figures provided by the ND to Audit in June 2015			
	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14 (Note 1)	Total
Number of participants (Note 2)	7,805	19,318	21,083	16,789	19,318	21,083	57,190
Number of persons who took the test	1,312	3,796	4,087	2,243	3,126	3,296	8,665 (Note 3)
Number of persons who were selected but did not complete the test	168	668	732	397	668	732	1,797 (Note 3)

Source: ND records

Note 1: The figures for 2013/14 were provisional only (see Note 2 to Appendix A).

Note 2: The participants had given consent to taking the voluntary drug testing.

Note 3: Between 2011/12 and 2013/14, a total of 10,485 students were selected for the drug testing, including 8,665 (82.6%) students who took the test, 1,797 (17.2%) students who did not complete the test for various reasons (e.g. unsuitable for the test and refusal to take the test) and 23 (0.2%) students who withdrew from the drug testing throughout the relevant school years. No positive case was found in all the tests.

Remarks: The figures in bold were different from those provided to Audit in June 2015. The ND explained that the figures for 2011/12 were first provided to LegCo in the examination of Estimates 2014-15 in March 2014 and covered participants in Tai Po district only.

**School participation in student surveys
(2008/09, 2011/12 and 2014/15)**

School year	Number of schools invited (a)	Number of schools participated in survey (b)	Participation rate (c) = (b)/(a) × 100%
Local primary school			
2008/09	128	89	70%
2011/12	174	98	56%
2014/15 (Note)	179	112	63%
International primary school			
2008/09	35	5	14%
2011/12	55	2	4%
2014/15 (Note)	58	5	9%
Local secondary school			
2008/09	146	99	68%
2011/12	168	94	56%
2014/15 (Note)	177	112	63%
International secondary school			
2008/09	21	11	52%
2011/12	28	12	43%
2014/15 (Note)	29	11	38%
Post-secondary institution			
2008/09	18	17	94%
2011/12	35	31	89%
2014/15 (Note)	42	34	81%

Source: *Audit analysis of ND records*

Note: *Provisional figures as at September 2015.*

Remarks: *Students were invited to participate in the surveys, as follows: (a) for local primary and secondary schools, all students from schools randomly selected were invited to participate in the surveys; (b) all students from international primary and secondary schools were invited to participate in the surveys; and (c) all post-secondary students attending full-time post-secondary programmes offered by local institutions were invited to participate in the surveys.*

**10 priority areas with no approved applications
(2010 to 2014)**

Item	Year	Area	Priority area
1	2010 (first round)	Preventive education and publicity	Projects to help curb the problems of cross-boundary drug abuse
2	2010 (first round)	Research	Study on supplementary drug monitoring system (qualitative mode)
3	2010 (second round)	Research	Study on supplementary drug monitoring system (qualitative mode)
4	2011	Research	Research projects on new and innovative treatment and rehabilitation services
5	2011	Research	Research and development of a supplementary drug monitoring system in a qualitative mode
6	2012	Research	Research on and development of a qualitative module of drug monitoring system
7	2013	Preventive education and publicity	Projects that seek to promote community acceptance of treatment and rehabilitation services and facilities
8	2013	Research	Research projects promoting the understanding of the harmful effects of and/or risk factors for psychotropic substance abusers and evidence-based understanding of different facets of anti-drug services and programmes or developing a qualitative module of drug monitoring system to facilitate the design of appropriate anti-drug strategies
9	2014	Preventive education and publicity	Projects that focus on early identification of parents with drug abuse history for rendering support and enhancing their skills to reduce the risk of drug abuse among their children
10	2014	Research	Projects that provide evidence-based understanding of different facets of anti-drug services and programmes, such as developing a qualitative module of drug monitoring system to facilitate the design of appropriate anti-drug strategies

Source: ND records

Remarks: Of the 10 priority areas, 7 were related to research on the development of a qualitative module of drug monitoring system.

Appendix F
(paras. 3.16 and
4.23 refer)

**Special Funding Scheme
(January 2010 to June 2015)**

Project	Works item	Date of application	Date of approval	Amount approved (\$ million)
1	Decoration and purchase of furniture and equipment for a DTRC	July 2011	February 2012	9.9
2	Redevelopment works for a DTRC (Note 1)	April 2011	February 2012	37.9
		July 2014	March 2015	12.7
	<i>Subtotal</i>			50.6 (Note 2)
3	Upgrading works for a DTRC (Note 1)	July 2012	May 2013	5.6
		November 2014	March 2015	0.4
	<i>Subtotal</i>			6.0
4	Enhancement of facilities for two DTRCs	May 2014	May 2015	47.1
5	Technical feasibility study of capital works for a DTRC	January 2014	July 2014	0.5
Total				114.1

Source: ND records

Note 1: Top-up grant was required after conducting the tender exercise.

Note 2: The amount included \$0.6 million for the technical feasibility study.

Remarks: As at August 2015, only Project 1 was completed.

Audit findings on six types of grant agreements used by the Beat Drugs Fund

1. List of six types of grant agreements

No.	Grant scheme
1	Regular Funding Scheme (\$500,000 or above)
2	Regular Funding Scheme (below \$500,000)
3	Healthy School Programme (Participating schools) (Note)
4	Healthy School Programme (Anti-drug activities) (Note)
5	Healthy School Programme (School drug testing) (Note)
6	Special Funding Scheme for DTRCs

2. Audit findings

Para.	Issue	Number of agreements (Agreements concerned)
4.5	Did not require auditors to audit grantees' compliance with key terms and conditions laid down in the grant agreements	3 (Nos. 4 to 6)
4.6	Did not specify the procedures for recruitment of project staff	5 (Nos. 1 to 5)
4.7	Did not specify unallowable costs and restrict administrative expenses	All 6
4.8	Did not specify requirements on avoiding and declaring conflicts of interest	2 (Nos. 1 and 2)
4.9	Only required grantees to keep records for three years	5 (Nos. 1 to 5)

Source: ND records

Note: For the HSP(DT), grants are provided for three different uses, each covered by a different type of agreement: (a) the first type is made with participating schools for providing logistic support for school drug testing and preparing appropriate anti-drug activities (such as supporting the staff costs for administrative and logistic work); (b) the second type is made with participating schools and NGOs for organising anti-drug and personal growth activities; and (c) the third type is made with NGOs for organising school drug testing.

Acronyms and abbreviations

ACABP	Anti-drug Community Awareness Building Programme
ACAN	Action Committee Against Narcotics
Audit	Audit Commission
BDF	Beat Drugs Fund
BDFEA	Beat Drugs Fund Association
B/Ds	Bureaux/departments
CRDA	Central Registry of Drug Abuse
DDO	Dangerous Drugs Ordinance
DTRCs	Drug Dependent Persons Treatment and Rehabilitation Centres
EDB	Education Bureau
FC	Finance Committee
FSTB	Financial Services and the Treasury Bureau
HKPF	Hong Kong Police Force
HSP(DT)	Healthy School Programme with a Drug Testing Component
ICAC	Independent Commission Against Corruption
LegCo	Legislative Council
ND	Narcotics Division
NGOs	Non-governmental organisations
RDT	RESCUE Drug Testing Scheme
SB	Security Bureau
SDAMS	Supplementary Drug Abuse Monitoring System
SWD	Social Welfare Department

CHAPTER 7

Customs and Excise Department

**Protection of revenue on dutiable commodities
and motor vehicle first registration tax**

**Audit Commission
Hong Kong
27 October 2015**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 65 of the Director of Audit contains 10 Chapters which are available on our website at <http://www.aud.gov.hk>

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PROTECTION OF REVENUE ON DUTIABLE COMMODITIES AND MOTOR VEHICLE FIRST REGISTRATION TAX

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PROTECTION OF REVENUE ON DUTIABLE COMMODITIES AND MOTOR VEHICLE FIRST REGISTRATION TAX

Executive Summary

1. According to the Dutiable Commodities Ordinance (Cap. 109), excise duties are levied on four types of commodities for domestic use or consumption, namely liquors, tobacco, hydrocarbon oil and methyl alcohol (collectively referred to as dutiable commodities (DCs)), irrespective of whether they are imported or manufactured locally. Under the Motor Vehicles (First Registration Tax) Ordinance (Cap. 330), first registration tax (FRT) is levied on all motor vehicles for use in Hong Kong. In 2014-15, the Government collected excise duties of \$10,010 million and FRT of \$9,549 million. The Customs and Excise Department (C&ED) is responsible for the protection and collection of excise duties, and the assessment of provisional taxable values of vehicles, while the FRT is collected by the Transport Department. In protection of excise duties, the C&ED discharges its responsibility by providing customs clearance of inbound and outbound cargoes by air, land and sea, clearance of entry passengers and combating smuggling. According to the C&ED, the total expenditure for 2014-15 under the “Revenue protection and collection” programme amounted to \$174.6 million. The Audit Commission (Audit) has recently conducted a review to examine the C&ED’s efforts in protecting government revenue from duties on DCs and FRT.

Licence and permit controls of DCs

2. DCs could be imported by air, land or sea and manufactured locally. Duties on DCs are collected when they are released from an importing carrier or a warehouse for local consumption. The C&ED administers a licence and permit system for the regulation of traders in their import, export, storage, manufacture and movement of DCs. For every instance of movement of DCs, a licensed trader must apply for an appropriate permit in advance. In 2014, 134,871 permits were issued, a 53% increase over the number issued in 2010. 81,774 of the 134,871 permits were Export Permits and 19,210 permits were related to importing DCs, with the remaining related to transfers to/from warehouses/retail outlets and ship’s stores. Depending on the types of DCs involved and the modes of transport/movement, the C&ED may impose different permit conditions, including requiring permit holders to present their DCs for customs clearance at land control

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points. Contravention of a permit condition constitutes an offence and the permit holder concerned may be prosecuted (paras. 1.2, 1.8(b), 1.10, 1.11, 2.2, 2.4 and 2.5(a)).

3. ***Need to take more stringent enforcement actions against detected non-compliance with customs-clearance permit condition.*** Customs clearance of DC consignments entering or exiting Hong Kong is used to ensure compliance of permit conditions and to detect any duty evasion through over-shipment/short-shipment of the quantities specified on the DC permits. Importers and exporters are required to apply for DC permits in advance and customs clearance of the DCs may be imposed by the C&ED. Designated C&ED officers are required to endorse permit conditions under their purview that have been complied with by the permit holders. Of the 6,962 permits issued for the import/export of DCs through land control points in 2014, 232 (3%) permits did not have the necessary endorsement. On investigation, the C&ED discovered that in 10 cases, the permit holders did not present the DCs for customs clearance at the control points. However, the C&ED only instigated prosecution action in one case and verbally reminded the permit holders of their statutory duty for the remaining nine non-compliant cases although they had been duly reminded at the time of permit application. For two permit holders who had multiple cases of non-compliance, there was no record to show why verbal reminders were still considered appropriate. The C&ED needs to take more stringent enforcement actions against all cases of non-compliance detected. In addition to imposing a permit condition that permit holders shall present their DCs for cargo examination, the C&ED has put in place a risk-based system of selecting cargoes for examination at land control points. However, the C&ED's computer system used by Customs officers of the Land Boundary Command needs improvement as it could not match the cargo information provided by carriers and truck drivers to the information on their respective DC permits captured in another computer system. As a result, selection of DC cargoes for examination has to be done by Customs officers manually (paras. 2.2, 2.5, 2.6, 2.11 and 2.13 to 2.19).

4. ***Need to strictly follow cargo examination procedures.*** Audit's sample checking of 127 cases of customs clearance at land control points in 2014 revealed that the scope of cargo examination for 48 (38%) cases fell short of the C&ED's laid-down requirements. There are also disparities in the laid-down requirements for examining import and export of DCs at land control points although the risk of duty evasion is similar in both import and export of DCs (para. 2.21).

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5. *Need to tighten control over endorsement of permit conditions.* The C&ED has authorised designated officers to endorse in its computer system permit conditions which have been complied with by permit holders so that reports on non-compliance cases can be retrieved for follow-up actions. In a sample checking of 1,772 endorsement records for 2015, Audit found that 84 (5%) endorsements were not made by staff responsible for monitoring the endorsed permit conditions. Audit also found that in 2014, there were 127 cases of omission to update the customs-clearance permit condition records after cargo examination. The C&ED needs to tighten control over the endorsement of permit conditions and reduce the risk of unauthorised endorsement not being detected (paras. 2.6, 2.11, 2.25 and 2.27).

6. *Need to tighten permit control over import/export of DCs via public cargo working areas.* Of the 2,461 permits issued for the import/export of DCs by sea via public cargo working areas in 2014, the C&ED imposed permit conditions on 1,761 (72%) permits to enable its staff to arrange checking of DCs imported/exported prior to their loading to/unloading from the carriers. However, similar permit conditions were not imposed on the remaining 700 (28%) permits for control purposes. For the 1,761 permits, the C&ED selected 258 permits for checking the DCs. Audit found that 113 (44%) of the 258 checks of DCs were conducted by the C&ED at locations specified by the permit holders other than public cargo working areas. The C&ED escorted the conveyance of the checked DCs to/from public cargo working areas for 44 (39%) of the 113 cases but had no similar compensatory controls to prevent tampering for the remaining 69 (61%) cases (paras. 2.28 and 2.29).

Enforcement against illicit DCs and management of seized items

7. *Need for stronger enforcement actions against repeated cases of abuse of duty-free cigarette concession.* At present, the law allows a passenger aged 18 or above to bring into Hong Kong 19 sticks of cigarettes for his own use, exempted from duty. Over the past five years, illicit cigarette seizure cases related to abuse of the duty-free cigarette concession increased by 116% from 4,962 in 2010 to 10,703 in 2014. Of the 8,096 repeated offender cases, the C&ED dealt with 6,113 (76%) cases by compound penalty and the others by prosecution. Audit found that 109 repeated offenders had committed six offences or more each for the past

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five years but 27 (25%) of them were not prosecuted because not all of their past offence records had been taken into account when considering compound penalty in lieu of prosecution. From 2010 to 2014, there were 4,618 summons cases relating to non-payment of compound penalty. Since June 2014, the C&ED has required its staff to instigate prosecution actions against repeated offenders with past records of non-payment of compound penalty. However, the requirement had not always been followed (paras. 1.12, 3.5, 3.11 to 3.13 and 3.15).

8. *Need to improve safe custody of seized goods and documentary exhibits.* In 2013, the C&ED's Internal Audit Division found a shortage in the physical quantity of motor spirit stored in its godown since seizure in 2002 as compared to the stock record. Besides, some documentary exhibits also could not be located in the case file. In July 2015, Audit found five similar cases of discrepancies (ranging from 82.6% to 100%) in the physical quantities of the seized motor spirit with the stock records and one case of mislaid documentary exhibits. However, no discrepancies in the quantities of the seized motor spirit were reported in the C&ED's stocktaking exercises conducted during the period of storage. After consulting the Government Laboratory, the C&ED considered that the discrepancies were due to natural evaporation of the volatile motor spirit over the years of storage. There is a need for the C&ED to improve the safe custody of physical and documentary exhibits, and to enhance the stocktaking procedures for ascertaining physical quantities of seized goods (paras. 3.22 and 3.24 to 3.28).

9. *Need to expedite action on disposal of seized items.* As at June 2015, the C&ED had six godowns with a total floor area of 27,810 square metres (m²) and a vehicle detention centre of 45,828 m² for the storage of goods/vehicles seized under various legislation. From 2012-13 to 2014-15, the C&ED disposed of a total of 131,931 items of seized goods and 487 seized vehicles related to all seizure cases, resulting in a decrease of occupancy rates of the godowns/vehicle detention centre. Audit examination of the storage records of DC-related seizure cases as at April 2015 has revealed that goods of 35 seizure cases and 97 seized vehicles were pending disposal more than one year after conclusion of legal proceedings or forfeiture. There is a need to expedite action to clear the long outstanding seizure cases and review the storage space requirement accordingly (paras. 3.33 to 3.38).

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Administration and protection of FRT

10. *Control over reassessment cases.* According to the Motor Vehicles (First Registration Tax) Ordinance, a registered distributor is required to publish the retail prices of motor vehicles before offering them for sale for use in Hong Kong. The taxable value of a motor vehicle is calculated based on the published retail price (PRP) as approved by the C&ED. If the assessed PRP is disagreed, the registered distributor may request the C&ED to carry out a reassessment. For such a reassessment case, supervisory endorsement (at Senior Superintendent level) is required for a downward adjustment of the PRP exceeding 10% of the original assessment or equal to \$50,000 and above. In 2014, there were nine cases of downward adjustments of PRPs exceeding the specified limits after multiple reassessments. In five (56%) of the nine cases, the required supervisory endorsement was not obtained. As regards the reassessment of provisional taxable values of vehicles imported for personal use, granting of reduction is not endorsed by a Senior Superintendent irrespective of the amount of reduction. To ensure adequate checks and balances, there is a need to lay down requirement on Senior Superintendent's endorsement similar to the PRP reassessment cases (paras. 4.2, 4.3(b), 4.7 and 4.13 to 4.16).

11. *Enforcement against contravention cases.* Any prosecution of an offence under the Motor Vehicles (First Registration Tax) Ordinance shall be instituted within six months after the date on which the Commissioner for Transport first has knowledge that the offence has been committed. In 2012, the Transport Department referred to the C&ED for investigation 692 vehicles suspected to have been sold higher than the approved PRPs in contravention with the Ordinance. After screening the cases, the C&ED considered that investigations should be conducted for 681 vehicles. However, given the statutory prosecution time bar, the investigations focused on 529 (78%) vehicles and the suspected offences in respect of 152 (22%) vehicles were not investigated. There is a need to introduce legislative amendments to extend the prosecution time bar so that the C&ED can take enforcement actions effectively (paras. 4.8 and 4.18 to 4.20).

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Audit recommendations

12. Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Commissioner of Customs and Excise should:

Licence and permit controls of DCs

- (a) take more stringent enforcement actions against all cases of non-compliance with the permit condition of land boundary customs clearance (para. 2.33(c));
- (b) consider integrating the existing computer systems to enable electronic transfer of data for the automatic selection of DC consignments for cargo examination and automatic updating of the permit condition endorsement records after cargo examination (para. 2.33(a));
- (c) remind the land control point staff to strictly follow the guidelines on conducting cargo examination of dutiable goods (para. 2.33(d));
- (d) tighten control over the endorsement of permit conditions by restricting the endorsement right to staff of relevant divisions (para. 2.33(f));
- (e) impose suitable permit conditions on all cases of import/export of DCs by sea via public cargo working areas to guard against duty evasion through over-shipment/short-shipment of DCs (para. 2.33(g));

Enforcement against illicit DCs and management of seized items

- (f) take stronger enforcement actions against recalcitrant offenders, by considering all their past offence records in determining whether they should be prosecuted or allowed to pay compound penalty in lieu (para. 3.17(b));
- (g) tighten monitoring of enforcement actions against repeated offenders with records of non-payment of compound penalty (para. 3.17(c));

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- (h) **improve the safe custody of physical and documentary exhibits, and enhance the stocktaking procedures for ascertaining physical quantities of seized goods (para. 3.39(a));**
- (i) **expedite action to clear long outstanding cases of seized goods and vehicles and review the long-term storage requirements of seized goods and vehicles (para. 3.39(c) to (e));**

Administration and protection of FRT

- (j) **take measures to ensure that the stipulated supervisory endorsement for downward adjustment of PRP is always obtained in cases with multiple reassessment requests (para. 4.21(b));**
- (k) **lay down requirements on Senior Superintendent's endorsement of downward adjustment of provisional taxable values in reassessment cases concerning vehicles imported for personal use similar to the PRP reassessment cases (para. 4.21(c)); and**
- (l) **work on legislative amendments to the Motor Vehicles (First Registration Tax) Ordinance to improve the control regime over FRT, including extension of the time bar for taking prosecution actions (para. 4.21(d)).**

Response from the Government

13. The Commissioner of Customs and Excise agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 Hong Kong is a free port. It does not levy any Customs tariff on imports or exports. Excise duties are levied only on four types of commodities for domestic consumption, namely liquors, tobacco, hydrocarbon oil and methyl alcohol (collectively referred to as dutiable commodities (DCs)), under the Dutiable Commodities Ordinance (Cap. 109), irrespective of whether they are imported or manufactured locally. For liquor, duty is only payable if its alcoholic strength is more than 30% by volume measured at a temperature of 20°C and the duty rate is 100% of its value (Note 1). For tobacco, hydrocarbon oil (Note 2) and methyl alcohol, duties are charged at specific rates per unit quantity. The duty rates on the four types of DCs as at September 2015 are shown at Appendix A.

1.3 In addition to excise duties on DCs, first registration tax (FRT) is levied on all motor vehicles for use in Hong Kong under the Motor Vehicles (First Registration Tax) Ordinance (Cap. 330). FRT is calculated on the basis of the taxable value of a vehicle and the tax rate for a particular vehicle class as specified in the Ordinance. The taxable value of a vehicle is determined on the basis of the published retail price (PRP) of the vehicle or the provisional taxable value (see para. 1.14) assessed by the Customs and Excise Department (C&ED). The tax rates of different classes of vehicles as at September 2015 are shown at Appendix B.

Note 1: *The value is primarily based on the transaction value which includes price paid or payable, packing costs, commission or brokerage, royalty or licence fee that the buyer is required to pay and any proceeds accrued to the seller, but excludes insurance premium, freight charges and other expenses incidental to the delivery of liquor.*

Note 2: *Duties are levied on three types of hydrocarbon oil, i.e. aircraft spirit, motor spirit and light diesel (except Euro V diesel which has become zero-rated since July 2008). Assessments of duties are based on the sales volume of oil companies declared in their monthly returns.*

Introduction

1.4 In 2014-15, the Government collected duties of \$10,010 million and FRT of \$9,549 million. Table 1 shows the revenue collected from these two sources from 2010-11 to 2014-15.

Table 1
Revenue from duties and FRT
(2010-11 to 2014-15)

Revenue	2010-11	2011-12	2012-13	2013-14	2014-15	Percentage increase from 2010-11 to 2014-15
	(\$ million)					
Duties						
Tobacco	4,221	4,207	5,313	5,849	6,069	44%
Hydrocarbon oil	3,027	3,147	3,273	3,451	3,529	17%
Liquor	298	363	383	415	406	36%
Methyl alcohol	5	8	7	5	6	20%
Overall	7,551	7,725	8,976	9,720	10,010	33%
FRT	6,657	7,070	7,466	8,338	9,549	43%

Source: C&ED and Treasury records

1.5 The Financial Services and the Treasury Bureau assumes the policy responsibility for revenue protection and collection of duties and FRT. The C&ED is responsible for:

- (a) the protection and collection of duties by:

- (i) administering a licence and permit system to control the manufacture, import, export, storage and movement of DCs;
 - (ii) assessing and collecting duties when a licensee requests a release of DCs for local consumption; and
 - (iii) combating smuggling and distribution of illicit DCs and taking enforcement actions against illicit activities at all levels; and
- (b) assessment of the provisional taxable value of a motor vehicle for calculating FRT (see para. 1.3) which is collected by the Transport Department (TD) when a vehicle is first registered by its owner. The C&ED also maintains a registration scheme for motor vehicle traders (i.e. importers and distributors) to facilitate control of import and distribution of motor vehicles.

According to the C&ED, the total expenditure for 2014-15 under the “Revenue protection and collection” programme amounted to \$174.6 million.

Licence and permit controls of DCs

1.6 *Licences.* The C&ED administers a licence system to control traders who are involved in the import, export, manufacture and storage of DCs. Through the terms and conditions on the conduct of business imposed in the licences, the C&ED regulates the licensees in their dealings of DCs. Currently, there are three types of DC licences issued by the C&ED which are valid for one year and renewable upon expiry, namely:

- (a) Import and Export Licence;
- (b) Manufacturer’s Licence; and
- (c) Warehouse Licence.

As at March 2015, the C&ED had issued 1,656 licences (comprising 1,558 Import and Export Licences, 13 Manufacturer’s Licences and 85 Warehouse Licences).

Introduction

1.7 **Bonded warehouses.** For the storage of DCs, Warehouse Licences are issued to three types of bonded warehouses, namely General Bonded Warehouses (Note 3), Public Bonded Warehouses (Note 4) and Licensed Warehouses (Note 5). The bonded warehouses, operated under an Open Bond System (OBS — Note 6), are duty-deferral facilities. Owners of DCs may store their goods in a bonded warehouse until they discharge the duty liability. Duty liability is discharged when the duty is paid or the goods are exported. As at March 2015, there were 15 General Bonded Warehouses, 35 Public Bonded Warehouses and 35 Licensed Warehouses run by 55 operators.

1.8 **Permits.** The C&ED also administers a permit system to control the movement of DCs in, out of and within Hong Kong. There are four types of DC permits issued by the C&ED, namely:

- (a) **Removal Permit.** A Removal Permit is required when DCs are removed from an importing carrier to a bonded warehouse, between bonded warehouses, or from a factory to a bonded warehouse;
- (b) **Duty-paid Permit.** A Duty-paid Permit is issued upon payment of duty. Such a permit is required when DCs are removed from an importing carrier, or a bonded warehouse, to a local retail outlet for sale;

Note 3: *General Bonded Warehouses are operated by container/air cargo terminal operators for temporary storage of DCs removed from or to be loaded onto carriers.*

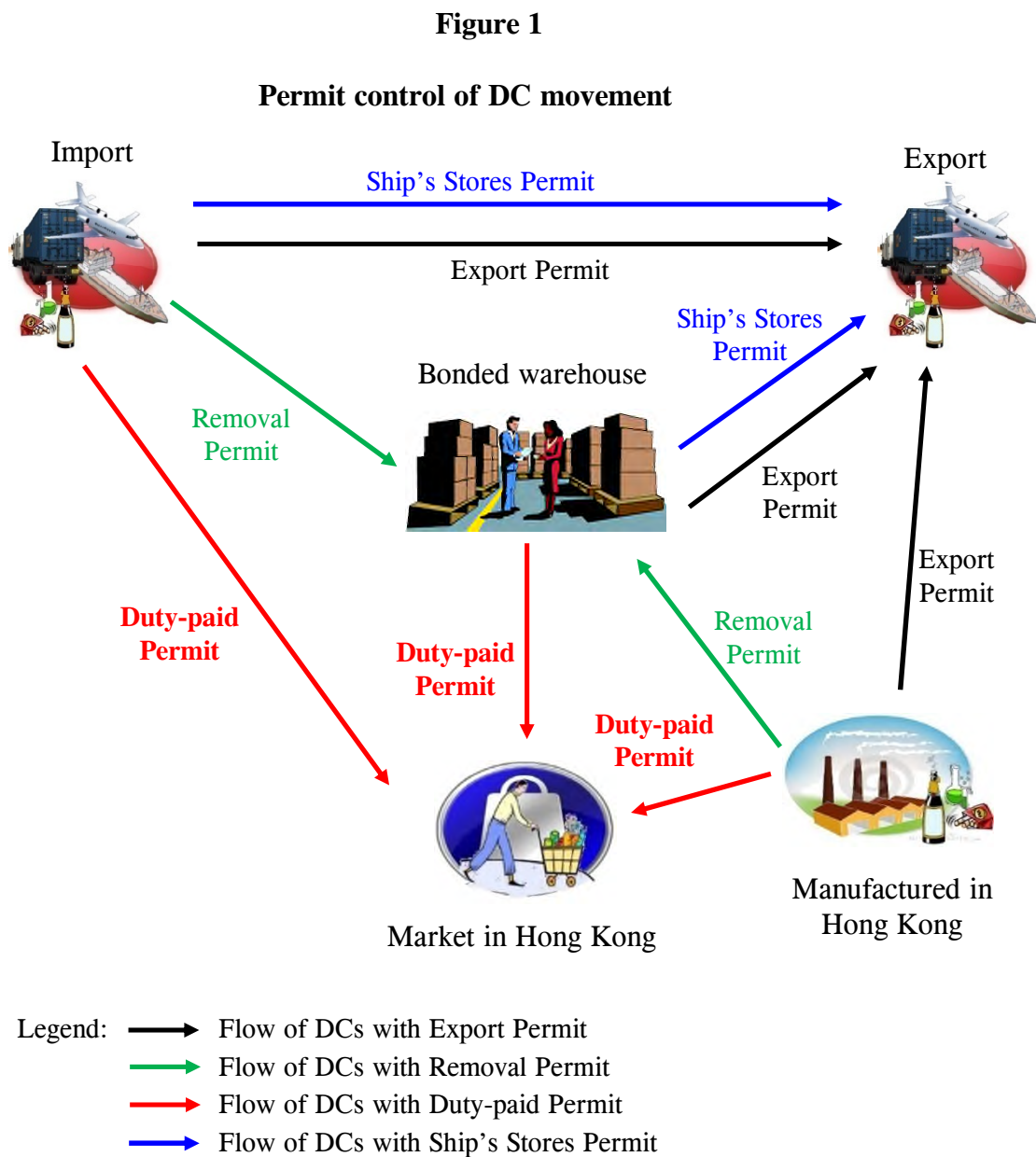
Note 4: *Public Bonded Warehouses are operated by warehouse operators for the storage of DCs owned by licensed importers/exporters.*

Note 5: *Licensed Warehouses are operated by individual licensed importers/exporters for the storage of their own DCs. Factories where DCs are manufactured are also deemed as Licensed Warehouses under the Dutiable Commodities Ordinance.*

Note 6: *Before the introduction of the OBS for warehouses storing tobacco and liquor in April 2003, Customs officers were stationed at these warehouses to provide physical supervision of the warehouse operations. Under the OBS, the related controls are entrusted to bonded warehouse operators, and warehouse operations are subject to surprise customs checks and auditing to detect breaches of the law and non-compliance with licensing conditions. The bonded warehouses for hydrocarbon oil had been operating under an OBS before 2003.*

- (c) **Export Permit.** An Export Permit is required when DCs are removed from a bonded warehouse to an exporting carrier, or from an importing carrier to an exporting carrier for re-export; and
- (d) **Ship's Stores Permit.** A Ship's Stores Permit is required when dutiable goods used as ships'/aircraft stores are removed from a bonded warehouse/an importing carrier to an exporting carrier.

1.9 Figure 1 shows the C&ED's permit control of DC movement.



Source: C&ED records

Introduction

Collection of duties

1.10 The C&ED assesses and collects duties when licensees apply for Duty-paid Permits for the release of DCs for local consumption. The application must be made through the Electronic Dutiable Commodities Permits (e-DCP) service. After duty assessment, the C&ED will notify the permit applicant of the duty payable via the e-DCP system. After the payment has been made to the Government, the applicant is required to send a Payment Confirmation Advice message through the system to the C&ED. The system will then approve the issue of a Duty-paid Permit.

Customs cargo and passenger clearance

1.11 **Cargo clearance.** All cargoes imported into/exported from Hong Kong by air, land and sea are subject to customs control, which is done primarily through screening of pre-shipment electronic cargo information and inspection of documents such as manifests, Import and Export Licences, and Removal/Duty-paid/Export Permits. Physical examination of the goods is mainly conducted on a sample basis.

1.12 **Passenger clearance.** Persons entering Hong Kong at control points are required to declare to Customs officers any prohibited/controlled items (Note 7) and the quantities of DCs which are in excess of the duty-free concessions. At present, the law allows a passenger aged 18 or above to bring into Hong Kong the following quantities of DCs for his own use, which are exempted from duty:

- (a) **Liquor:** one litre of liquor with an alcoholic strength above 30% by volume measured at a temperature of 20°C (Note 8); and
- (b) **Tobacco:** 19 sticks of cigarettes, one cigar or 25 grams of cigars, or 25 grams of other manufactured tobacco.

Note 7: *Prohibited/controlled items include dangerous drugs, psychotropic substances, controlled chemicals, antibiotics, arms, ammunition, fireworks, strategic commodities, rough diamonds, animals, plants, endangered species, telecommunication equipment, game, meat, poultry and powdered formula.*

Note 8: *If the passenger holds a Hong Kong Identity Card, he must have spent 24 hours or longer outside Hong Kong to be eligible for the duty exemption for liquor.*

To prevent smuggling of prohibited articles, persons may be selected for baggage examination and personal search.

Enforcement and seizure management of DCs

1.13 To protect revenue, the C&ED combats smuggling and distribution of illicit DCs and takes enforcement actions against illicit activities. In 2014, the C&ED handled 12,009 seizure cases and arrested 12,018 offenders. The C&ED is also responsible for the storage and disposal of seized DCs and vehicles.

Administration and protection of FRT

1.14 Under the Motor Vehicles (First Registration Tax) Ordinance, motor vehicle traders are required to register as vehicle importers and/or distributors and comply with the statutory provisions for the import and distribution of motor vehicles. In particular, a registered distributor is required to publish the retail prices of motor vehicles (i.e. the PRPs) endorsed by the C&ED before offering them for sale for use in Hong Kong. The C&ED will assess the provisional taxable value of a motor vehicle based on the PRP and issue a “Notification of Motor Vehicle Provisional Taxable Value” to the registered distributor. A registered distributor commits an offence if he sells a motor vehicle at a price higher than the approved PRP, without obtaining the C&ED’s prior consent. The TD’s Licensing Office will collect FRT when a vehicle owner produces the Notification and other supporting documents (e.g. the manufacturer’s or dealer’s invoice and payment receipt) for the first registration of his vehicle. In 2014, the C&ED conducted 77,690 assessments and 25,944 reassessments of provisional taxable values on imported vehicles.

1.15 Apart from maintaining the registration scheme for motor vehicle traders and conducting assessments of provisional taxable values, the C&ED also investigates suspected tax evasion and non-compliance cases (detected by its staff, or referred by the TD, other departments and members of the public), and takes necessary enforcement actions. In 2014, the C&ED took prosecution actions on 52 tax evasion and non-compliance cases, involving 181 vehicles with a total court penalty of about \$1 million.

Organisation of the C&ED

1.16 With an establishment of 5,955 posts (as at March 2015), the C&ED is organised into five branches (see Appendix C for an organisation chart). Among the five branches, three branches (namely the Boundary and Ports Branch (BPB), the Excise and Strategic Support Branch, and the Intelligence and Investigation Branch), each headed by an Assistant Commissioner of Customs and Excise, play key operational roles in the protection and collection of duties and administration of DCs and FRT (see details in paras. 1.17 to 1.19).

1.17 *Office of Dutiable Commodities Administration (ODCA)*. Under the Excise and Strategic Support Branch, the ODCA, headed by a Senior Superintendent, is mainly responsible for:

- (a) licensing of the import, export, manufacture and storage of DCs;
- (b) assessment and collection of duties and related fees and charges on DCs;
- (c) regulation of the movement of DCs by permits;
- (d) maintenance of a registration scheme for motor vehicle traders; and
- (e) assessment of the provisional taxable values of motor vehicles for the purpose of calculating FRT.

As at March 2015, the ODCA had an establishment of 149 staff, comprising 107 disciplined staff and 42 civilian staff.

1.18 *Boundary and Ports Branch*. The BPB is responsible for the customs clearance of inbound and outbound cargoes by air, land and sea, the customs clearance of entry passengers, and combating smuggling at all the 12 control points in Hong Kong. The BPB comprises four commands, namely the Airport Command, Land Boundary Command, Ports and Maritime Command, and Rail and Ferry Command. As at March 2015, the BPB had an establishment of 3,560 staff, comprising 3,413 disciplined staff and 147 civilian staff.

1.19 *Revenue and General Investigation Bureau (RGIB).* Under the Intelligence and Investigation Branch, the RGIB, headed by a Senior Superintendent, is responsible for combating smuggling and distribution of illicit DCs within Hong Kong and taking enforcement actions against the offenders concerned. As at March 2015, the RGIB had an establishment of 212 staff, comprising 207 disciplined staff and five civilian staff.

Audit review

1.20 *2002 Audit Review.* In 2002, the Audit Commission (Audit) conducted a review of the C&ED's efforts to protect government revenue from DCs (Chapter 2 of the Director of Audit's Report No. 39 of October 2002). The review covered two types of DCs, namely cigarettes and hydrocarbon oil, with focus mainly on abuses of cigarette duty-free concession and enforcement on combating illegal fuelling activities. Since then, the C&ED has implemented various measures to facilitate and monitor the trade and enhance customs clearance, including:

- (a) implementation of the OBS for all bonded warehouses since April 2003;
- (b) implementation of the Red and Green Channel System (see Appendix D) for self-declaration of DCs at all entry points since November 2005; and
- (c) launch of the Road Cargo System (ROCARS) in May 2010 to facilitate advance electronic submission of land cargo information for all types of goods by traders and carriers (which became mandatory in November 2011) and speed up customs clearance at land control points.

1.21 In April 2015, Audit commenced a review to examine the C&ED's efforts in protecting government revenue from duties on DCs and FRT. The review has focused on the following areas:

- (a) licence and permit controls of DCs (PART 2);
- (b) enforcement against illicit DCs and management of seized items (PART 3); and

Introduction

- (c) administration and protection of FRT (PART 4).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

Acknowledgement

1.22 Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the C&ED during the course of the audit review.

PART 2: LICENCE AND PERMIT CONTROLS OF DUTIABLE COMMODITIES

2.1 This PART examines the C&ED's licence and permit controls of DCs.

Controls of licence and permit conditions

2.2 The Dutiable Commodities Ordinance empowers the C&ED to administer a licence and permit system for the regulation of the import, export, storage, manufacture and movement of DCs. For every instance of movement of DCs, a DC licensee (see para. 1.6) must apply for an appropriate permit in advance. Each permit has a specified validity period. From 2010 to 2014, the number of permits issued for DCs increased by 46,982 (53%) from 87,889 to 134,871 (see Table 2). An analysis of the number of permits issued by permit types is shown in Figure 2.

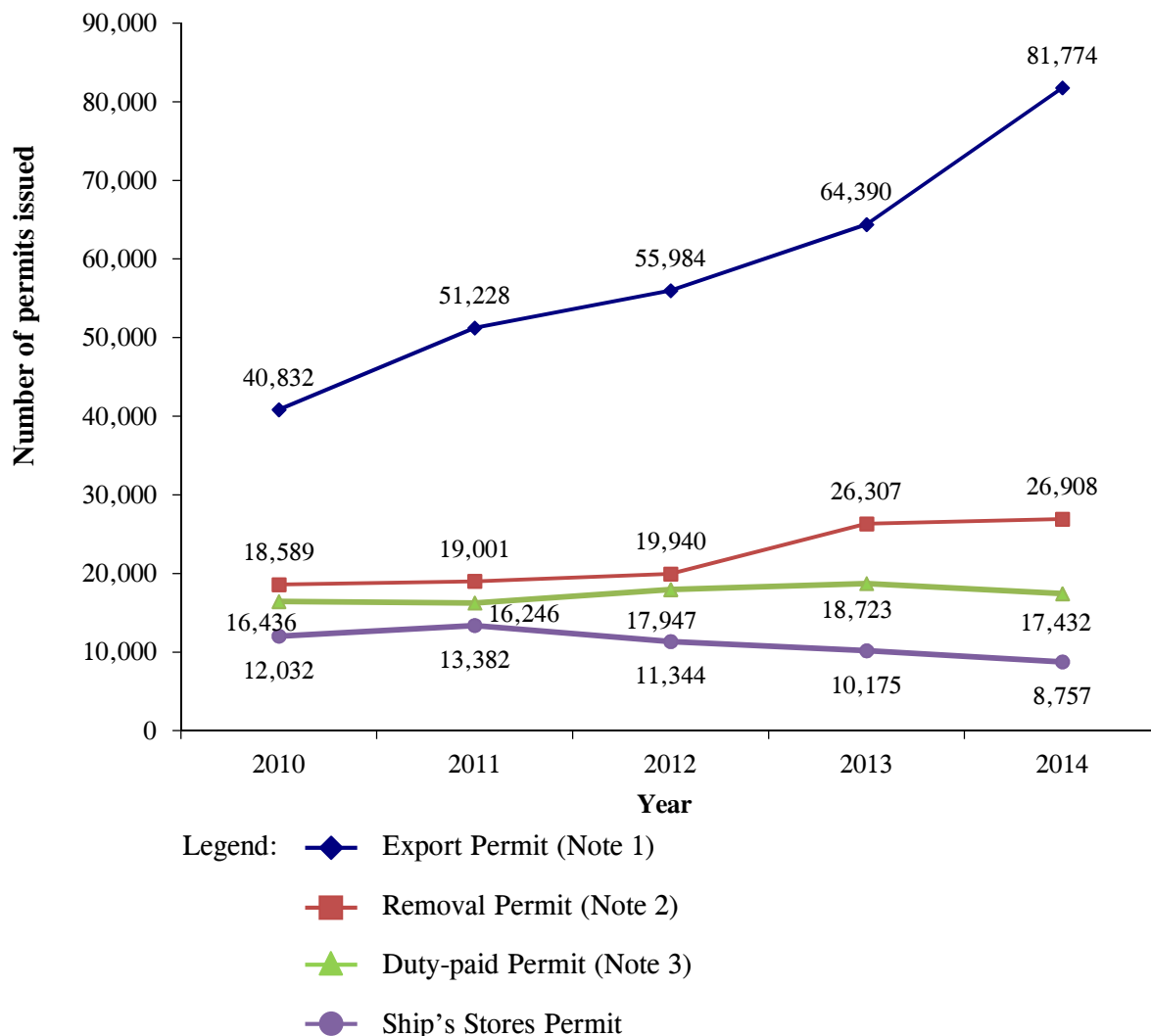
Table 2
Analysis of permits issued by DC types
(2010 to 2014)

DC	Number of permits issued					Percentage increase/(decrease) from 2010 to 2014
	2010	2011	2012	2013	2014	
Tobacco	60,553	69,731	76,615	88,547	105,268	74%
Liquor	24,864	28,082	26,265	28,750	27,128	9%
Methyl alcohol	1,530	1,274	1,555	1,574	1,718	12%
Hydrocarbon oil	942	770	780	724	757	(20%)
Overall	87,889	99,857	105,215	119,595	134,871	53%

Source: C&ED records

Figure 2

Number of permits issued by types
(2010 to 2014)



Source: C&ED records

Note 1: Of the 81,774 Export Permits in 2014, 9,937 (12%) were for trans-shipment. The increase in number of Export Permits from 2010 to 2014 was mainly related to tobacco (see Table 2).

Note 2: Of the 26,908 Removal Permits in 2014, 7,784 (29%) were for importing DCs and the remaining 19,124 (71%) were for transfers between bonded warehouses or between factories and bonded warehouses.

Note 3: Of the 17,432 Duty-paid Permits in 2014, 11,426 (66%) were for importing DCs and the remaining 6,006 (34%) were for removal from bonded warehouses to retail outlets.

Licence and permit controls of dutiable commodities

2.3 Since 1998, the C&ED has been using the computerised Customs Control System (CCS) to assist in carrying out DC-related customs control functions. The ODCA sub-system of the CCS (Note 9) processes all DC-related licences and permits, maintains a database on the licences/permits issued, and keeps the stock/transaction records of DCs held in individual bonded warehouses.

Monitoring compliance with permit conditions

2.4 In accordance with the Dutiable Commodities Ordinance, the C&ED may impose conditions on individual permits for control purposes. A permit holder shall strictly comply with all the permit conditions. Contravention of a permit condition constitutes an offence and the permit holder concerned may be prosecuted (Note 10). Depending on the types of DCs involved, the modes of transport/movement and the latest trend of smuggling, different permit conditions are applied to different types of permits. At present, there are only two general conditions which are applicable to all permits:

- (a) ***Executed Permit Advice.*** A permit holder shall send an Executed Permit Advice via e-DCP (see para. 1.10) to the C&ED within 14 working days after the removal of DCs; and
- (b) ***Permit cancellation.*** If a permit has not been used, the permit holder shall report it to the C&ED within 14 working days from the approved removal date by sending a cancellation request via e-DCP.

2.5 Currently, there are 34 specific conditions for which the C&ED can impose on the four types of permits (see para. 1.8) to cater for different situations. Such conditions can be broadly classified as customs actions required (16 conditions), submission of documents for post-clearance check (six conditions),

Note 9: *The CCS consists of three sub-systems. Besides the ODCA sub-system, the other two sub-systems are for maintaining a trader database to facilitate risk assessment for cargo clearance, and administration of sea cargo and vessel clearance.*

Note 10: *A convicted person may be fined \$1 million and imprisoned for two years. Where an offence is committed with intent to avoid duty payment, an additional fine not exceeding ten times the amount of duty payable may be imposed.*

Licence and permit controls of dutiable commodities

restrictions on use of duty-exempted goods (five conditions), restrictions on DC labelling (four conditions) and time limit for removal of DCs (three conditions). Examples of conditions on specific types of permits are as follows:

- (a) ***Customs clearance for import or export of DCs by land.*** Permit holders shall present DCs to Customs officers at one of the designated land control points (i.e. Lok Ma Chau/Man Kam To/Shau Tau Kok/Shenzhen Bay Control Point) for import/export clearance. DCs conveyed under the Intermodal Trans-shipment Facilitation Scheme (ITFS — Note 11) are exempted from this permit condition;
- (b) ***Notification of import/export of DCs requiring vanning/devanning of containerised cargoes via sea.*** Permit holders shall send a notification to the C&ED 24 hours before the vanning/devanning operation (Note 12). Separate notification shall be sent for subsequent change in the particulars of that operation four hours before the change takes effect; and
- (c) ***Appointment for customs attendance.*** For excise operations, such as sample drawing, destruction of DCs and selective check on duty-paid goods imported in containers, permit holders shall make appointment for customs supervision.

Note 11: *The ITFS, launched in November 2010, facilitates the movement of trans-shipment cargoes across the boundary with the Mainland. Trans-shipment cargoes, if selected for examination, will be subject to customs inspection once either at the entry or exit point. Under the ITFS, electronic locks are applied to secure cargo compartments of goods vehicles to prevent the cargoes from being tampered with during the journeys. Besides, Global Positioning System devices are used for monitoring the status of the electronic locks and tracking the movement of the vehicles to ensure the security of the cargoes while being conveyed within Hong Kong.*

Note 12: *Vanning and devanning refer to the processes of loading DCs for export into containers and affixing seals to the containers, and unloading imported DCs from sealed containers respectively. Before April 2003, all vanning and devanning operations were supervised by the C&ED and relevant DC importers/exporters had to pay a charge for the customs attendance. Since April 2003, customs attendance has been replaced by selective checks on a surprise basis without charges. In 2014, the ODCA received 11,417 vanning/devanning notifications and checked 1,867 (16%) such operations.*

Licence and permit controls of dutiable commodities

2.6 The C&ED has authorised designated officers to endorse permit conditions in the CCS under their purview that have been complied with by the permit holders. For example, Customs officers at land control points responsible for examining DCs presented for import/export clearance (see para. 2.5(a)) will retrieve the relevant permit record from the CCS and endorse it in the system. The CCS facilitates the C&ED in monitoring the compliance with permit conditions by:

- (a) providing lists of permit holders who are subject to specific conditions for checking against the physical documents they have submitted (e.g. vanning/devanning notifications (see para. 2.5(b)) and Executed Permit Advice (see para. 2.4(a))); and
- (b) identifying defaulters who have not complied with individual conditions (e.g. permits for import/export of DCs without customs-clearance endorsement by the land control points).

Licence control of bonded warehouses

2.7 With the full implementation of the OBS in April 2003, Customs officers guarding the bonded warehouses have been withdrawn. The related controls on movement/processing of DCs have been entrusted to the bonded warehouse operators who are now subject to more stringent licensing requirements. They have to comply with a set of licensing conditions covering DC record keeping, inventory control and maintenance of books/accounts for C&ED's excise audits and compliance checks. The C&ED may revoke their licences if there is proof of an offence committed by the warehouse operators. Penalties are also prescribed for breaching the provisions of the Dutiable Commodities Ordinance.

2.8 Bonded warehouse operators are required to return to the C&ED an electronic Executed Permit Advice immediately after each receipt/release of DCs into/from the warehouse. The C&ED will regularly check the CCS records for any discrepancies in the reported DC quantities from the returned Advice against that submitted by relevant permit holders (see para. 2.4(a)). The warehouse operators are also required as a licensing condition to submit monthly returns to the C&ED on the stock balances and DC movements during the period. The returns are verified by the C&ED against corresponding permit records held in the CCS.

Licence and permit controls of dutiable commodities

2.9 To ensure compliance with the licensing conditions, the C&ED conducts surprise compliance checks on the bonded warehouses at least once a month and other surprise checks including those outside the warehouses' operating hours to detect unauthorised activities. The C&ED also conducts excise audits on the systems, processes, practices and records of the warehouses on an annual basis. In 2014, the ODCA conducted 929 monthly compliance checks and 412 other surprise checks on bonded warehouses and carried out 55 excise audits of warehouse operators (Note 13).

Enforcement statistics

2.10 Table 3 shows the number of cases of non-compliance with permit and licence conditions with prosecution actions taken by the C&ED in 2014.

Table 3
30 non-compliance cases with prosecution
(2014)

Non-compliance	Number of cases
Removal of DCs not meeting permit requirements	14
No notification of vanning/devanning operation	6
Import and removal of DCs without permit	4
DCs not removed within the permit condition of 24 hours	2
DCs not presented for customs clearance at land control points	2 (Note)
No customs attendance for checking DC removal/sample drawing	1
Incorrect monthly return	1
Total	30

Source: C&ED records

Note: The two cases were detected in 2013 with prosecution actions taken in 2014.

Note 13: *For operators with more than one bonded warehouse, the excise audit would usually cover all its bonded warehouses in one go. The excise audit team comprises Customs officers and staff with accountancy background.*

Post-clearance document check

2.11 As mentioned in paragraph 2.6, the C&ED has authorised designated officers to endorse permit conditions in the CCS under their purview. The ODCA regularly retrieves from the CCS reports on permit conditions without relevant C&ED staff's endorsements for follow-up actions. According to these reports, in 2014, there were 232 permits (i.e. 3% of 6,962 permits for import/export of DCs via the land control points) without the land control point's endorsement of the customs-clearance permit condition (see para. 2.5(a)). After clarifications with the land control points and relevant permit holders, the ODCA noted that:

- (a) ***Cases without customs clearance.*** In 10 (4%) cases, the permit holders had failed to comply with the permit condition of presenting their DCs for customs clearance;
- (b) ***Cases with customs clearance but the CCS records not updated.*** In 127 (55%) cases, the land control point staff had not retrieved the permit records from the CCS for endorsement after conducting customs clearance of the DCs concerned;
- (c) ***Exempt cases.*** In 74 (32%) cases, the DCs concerned were conveyed under the ITFS (see para. 2.5(a)) and hence exempted from the customs-clearance permit condition; and
- (d) ***Cancelled cases.*** The remaining 21 (9%) cases were related to cancelled permits.

Audit examination

2.12 According to the C&ED, there are no similar permit conditions for customs clearance of import/export of DCs by air or sea because they are mainly handled by cargo terminals (Note 14) which are bonded warehouses subject to the C&ED's compliance checks and excise audits (see para. 2.9). The C&ED relies on

Note 14: *All air cargoes for import/export are handled by the air cargo terminals. As for the import/export of DCs by sea, the dutiable goods covered by 92% of 30,593 permits in 2014 were handled by cargo terminals. For the remaining 8% (or 2,461 permits), the loading/unloading of the related DCs to/from carriers was carried out in public cargo working areas.*

Licence and permit controls of dutiable commodities

the independent submission of Executed Permit Advice by both the permit holders and the bonded warehouse operators (see paras. 2.4(a) and 2.8) to ascertain that the DCs have been duly imported or exported. The C&ED cannot rely on the same control for import/export of DCs via public cargo working areas and those transported by land and hence strict control of the customs-clearance permit condition is important. Having regard to the higher control risk of DCs imported/exported by land, and those handled in public cargo working areas, Audit has focused on the following areas in this review:

- (a) selection of DCs for customs examination at land control points (see paras. 2.13 to 2.16);
- (b) enforcement actions against detected non-compliance with customs-clearance permit condition (see paras. 2.17 to 2.19);
- (c) cargo examination procedures at land control points (see paras. 2.20 to 2.22);
- (d) control over endorsement of permit conditions (see paras. 2.23 to 2.27);
and
- (e) permit control over import/export of DCs via public cargo working areas (see paras. 2.28 and 2.29).

In addition, Audit has reviewed the actions taken on idle DC stocks in bonded warehouses (see paras. 2.30 to 2.32).

Need to better integrate information in computer systems to facilitate selection of DCs for customs examination at land control points

2.13 According to the Land Boundary Command's laid-down procedures for cargo processing, all inbound and outbound vehicles carrying DCs should be subject to cargo examination. In addition to imposing a permit condition which requires permit holders to present their DCs (through their carriers or truck drivers) for cargo examination, the Land Boundary Command has put in place a risk-based system of selecting cargoes for examination.

Licence and permit controls of dutiable commodities

2.14 With the implementation of ROCARS in 2011 (see para. 1.20(c)), all registered agents, carriers and cross-boundary truck drivers are required to submit a set of pre-defined cargo information electronically to the C&ED before the cargoes enter or exit Hong Kong. The submission should be done at least 30 minutes before but not more than 14 days in advance of the import/export. Based on the submitted information and with the assistance of ROCARS, the cargo selectors of the Land Boundary Command perform risk profiling and select consignments for customs examination. An action code would be assigned to the selected consignment so that when the truck carrying the consignment arrives at the control point, it would be directed to the cargo examination compound for customs clearance.

2.15 Cargo information in the ROCARS submission which can help identify DC-related consignments includes goods descriptions, DC permit types and numbers (Note 15). At present, there is no linkage between ROCARS and the CCS to assist the cargo selectors in verifying the submitted permit numbers for identifying DC consignments. As such, the cargo selectors have to rely on goods descriptions and permit types for making the selections. In response to the ODCA's enquiries on why an action code was not assigned to the ten cases without customs clearance (see para. 2.11(a)), the Land Boundary Command said that the submitted information was inconsistent and misleading. For example, in five of the ten cases, the goods descriptions (such as red wine and wine cabinet) were non-DC types. For the remaining five cases, while the goods descriptions were DC types, the permit types were marked as "others".

2.16 To enhance the efficiency of selecting DC consignments for customs clearance, Audit considers that there is merit to consider integrating the existing computer systems to enable electronic transfer of DC permit numbers for matching with the CCS records. With automatic selection of DC consignments based on permit numbers, human errors in manual selection can be minimised. The cargo

Note 15: *According to the Import and Export (Electronic Cargo Information) Regulation (Cap. 60L), goods descriptions must be provided in ROCARS submissions. It is an offence to provide incorrect goods descriptions in the ROCARS submission. As for the provision of DC permit types and numbers, it is an administrative requirement only. In 2011, the CCS was enhanced to automatically remind permit applicants for import/export of DCs by land to provide permit numbers when lodging ROCARS submissions. The compliance rate of submissions of permit numbers was high. For example, for the 127 cases with customs clearance (see para. 2.11(b)), 114 (90%) had correct DC permit numbers submitted.*

Licence and permit controls of dutiable commodities

selectors' workload would also be reduced to handling the unmatched permit number cases only so that they can pay more attention to other risk profiling work. In the long term, there is a need to consider adopting enhancement measures to ensure that DC permit numbers are input in ROCARS submissions.

Need to take more stringent enforcement actions against detected non-compliance with customs-clearance permit condition

2.17 Customs clearance of DC consignments entering or exiting Hong Kong is used to detect duty evasion through over-shipment/short-shipment of DCs than the quantities specified on the permits.

2.18 For the ten cases of non-compliance with the customs-clearance permit condition in paragraph 2.11(a), the C&ED had only instigated prosecution action against one permit holder (see Table 4). For the remaining nine cases, the C&ED had verbally reminded the permit holders concerned to comply with the customs-clearance permit condition. In response to Audit's enquiries, in September 2015, the C&ED said that it had considered sufficiency of evidence for taking prosecution action for the ten cases, and only one case was found warranting prosecution.

Licence and permit controls of dutiable commodities

Table 4

Enforcement actions taken against ten non-compliant cases

Permit holder	Date of import/export	Permit type	Quantity of DC stated in permit	Enforcement action taken
A	30.7.2014	Removal	648 bottles of liquor (Note 2)	Prosecution (in July 2015)
B	19.8.2014	Duty-paid	398 bottles of liquor (Note 2)	} Verbal reminder
	19.8.2014	Removal	216 bottles of liquor (Note 2)	
	11.12.2014	Export	222 bottles of liquor	
C	3.9.2014 (Note 1)	Export	11.3 million sticks of cigarettes	
	3.9.2014 (Note 1)	Export	11.3 million sticks of cigarettes	
	3.9.2014 (Note 1)	Export	11.35 million sticks of cigarettes	
D	18.3.2014	Export	900 litres of ethyl alcohol (under permit for liquor) (Note 2)	
E	28.4.2014	Export	1,022 litres of methyl alcohol (Note 2)	
F	25.8.2014	Export	681 bottles of liquor	

Source: C&ED records

Note 1: The DCs covered by the three Export Permits were separately conveyed by three different vehicles.

Note 2: The goods descriptions in the ROCARS submissions differed from those in the DC permits (see para. 2.15).

2.19 Audit considers that enforcement action taken should be proportionate to the seriousness of an offence. Non-compliance with the customs-clearance permit condition carries the risk of duty evasion as there is no customs checking to ensure

Licence and permit controls of dutiable commodities

that the permit specified quantities of DCs have been duly imported/exported. Such non-compliance cases should be taken seriously. In this connection, Audit noted that:

- (a) since 2011, the CCS has been enhanced to automatically remind DC permit applicants to direct their carriers/drivers to present the DCs for customs clearance. In other words, all permit holders of the nine cases of non-compliance had been duly reminded of their statutory duty beforehand; and
- (b) for permit holders B and C who had multiple cases of non-compliance, there was no record to show why verbal reminders were still considered appropriate. There was also no record to show that the C&ED had sought legal advice before coming to such decisions.

The C&ED needs to take more stringent enforcement actions against all cases of non-compliance with the customs-clearance permit condition, seeking legal advice where appropriate.

Need to strictly follow cargo examination procedures at land control points

2.20 The Land Boundary Command has laid down the following guidelines for examining the import and export of DCs:

- (a) for import of DCs covered by a Removal Permit, the land control point staff should check the particulars via the CCS workstation and examine the DCs if necessary;
- (b) for import of DCs covered by a Duty-paid Permit, the type and quantities of the DCs declared must be ascertained, particularly liquors and cigarettes;
- (c) for export of DCs covered by an Export Permit, the land control point staff should check the particulars via the CCS workstation and conduct physical examination randomly on the declared DCs to check if the permit conditions are complied with. Attention should be paid to ensuring that

Licence and permit controls of dutiable commodities

the dutiable goods and quantities correspond with the description on the relevant permit; and

- (d) after completion of cargo examination, the land control point staff should input the results (including the description of goods and quantities examined) into ROCARS and generate a cargo examination report for signature by the driver to certify that no damage has been caused to the goods examined.

2.21 *Non-compliance with guidelines on cargo examination.* Of the 127 cases with customs clearance conducted (see para. 2.11(b)), the C&ED could only produce 77 (61%) cargo examination reports for Audit's examination. For the remaining 50 (39%) cases, the ROCARS records showed that:

- (a) the cargo examination for 48 (38%) cases (11 covered by Duty-paid Permits and 37 by Export Permits) only involved external checking and counting of the packages and gross weight. In other words, the scope of check fell short of the cargo examination requirements for Duty-paid and Export Permits, i.e. ascertaining the type and quantities of the DCs and ensuring that they corresponded with the descriptions in the permits respectively (see para. 2.20(b) and (c)); and
- (b) the remaining two (1%) cases (one covered by a Removal Permit and the other by an Export Permit) only had documents checked. Audit notes that under the present guidelines, the absence of cargo examination is regarded as non-compliance with internal guidelines for the Export Permit case but not for the Removal Permit case as the land control point staff are only required to examine DCs if necessary (see para. 2.20(a) and (c)). This is an anomaly which the C&ED needs to address as the risk of duty evasion is similar in both import and export of DCs.

2.22 *Failure to update CCS records after cargo examination.* As can be seen from the 127 cases of omission to update the permit condition records in the CCS after cargo examination, a lot of administrative work was required. ODCA staff had to carry out post-clearance document checks to identify the omission cases while the land control point staff had to answer queries from the ODCA. Given that the land control point staff have to update ROCARS records after cargo examination, it would help reduce the manual input efforts and human errors if there is electronic

Licence and permit controls of dutiable commodities

transfer of such data to automatically update the permit condition endorsement records of the CCS. The C&ED needs to explore the feasibility of integrating the existing computer systems to enhance the efficiency and effectiveness in maintaining the ROCARS and CCS records.

Need to tighten control over endorsement of permit conditions

2.23 In an assignment study of the C&ED's control and release of DCs in 2003, the Independent Commission Against Corruption (ICAC) found that C&ED officers designated to endorse the compliance with permit conditions under their purview were given global endorsement right. There was a risk that the non-control point staff could endorse the customs-clearance permit condition even though the DCs covered by an Export Permit had never passed through the designated land control point. In January 2004, the C&ED informed the ICAC that it would restrict the endorsement right to relevant divisions with effect from March 2004.

2.24 In the course of reviewing the 232 import/export permits without relevant C&ED staff's endorsements on the land customs-clearance permit condition (see para. 2.11), Audit found that 34 (15%) permits also had wrong endorsement of another permit condition. The permit condition of notification of vanning/devanning operations under the purview of the ODCA (see para. 2.5(b)) was wrongly endorsed by some BPB staff, indicating that the problem of global endorsement right still existed in 2014. Upon enquiry, the C&ED informed Audit that:

- (a) the ICAC's recommendation put emphasis on limiting right on endorsement of the permit condition for dutiable goods leaving Hong Kong to officers of control points only. This had been implemented by restricting ODCA staff from endorsing such permit condition;
- (b) the customs-clearance permit condition served an important function of ascertaining that the relevant DCs had been duly imported/exported by land (see para. 2.12) and hence strict control over its endorsement was necessary; and
- (c) the same strict control over the endorsement right might not be necessarily applied to other permit conditions, but the C&ED agreed to review if necessary.

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2.25 For an extended checking of the endorsement of permit conditions, Audit obtained from the C&ED an extract of the CCS records from 29 May to 30 June 2015. The extract contained 365 endorsement records for the land customs-clearance permit condition and 1,407 records for the permit condition of notification of vanning/devanning operations. Audit found that of the 1,772 (365 plus 1,407) endorsement records:

- (a) two Export Permits with the customs-clearance permit condition at land control points were wrongly endorsed by the Airport Command staff; and
- (b) 82 permits with the permit condition of notification of vanning/devanning operations were wrongly endorsed by BPB staff (similar to the 34 cases of 2014 (see para. 2.24)).

2.26 In response to Audit's enquiries, in July 2015, the C&ED said that the observed wrong endorsement cases were in fact unnecessary endorsements because:

- (a) the two Export Permits were endorsed by the Airport Command staff after cargo examination although they were related to the trans-shipment of DCs under the ITFS (Note 16); and
- (b) for the 82 Export Permits with the permit condition of notification of vanning/devanning operations endorsed by BPB staff, the DCs were not exported using containers (see Note 12 to para. 2.5(b)). As no vanning and devanning operations were involved in these cases, the permit condition of notification was not applicable.

2.27 Audit noted the C&ED's explanation that there was no adverse consequence for the observed wrong endorsement cases. However, the fact remains that if the issue of unrestricted endorsement right is not properly addressed, there is always a risk of unauthorised endorsement. In this connection, Audit notes that among the divisions with responsibilities for endorsing permit conditions, only the ODCA has internal guidelines requiring its supervisory staff to conduct checks on the endorsement records. For divisions without instituting supervisory check, there is a risk of unauthorised endorsement not being detected. Given the large number

Note 16: *As mentioned in paragraph 2.5(a), trans-shipment of DCs under the ITFS is exempted from the land customs-clearance permit condition.*

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of endorsement records each year (e.g. in 2014, 134,871 permits were issued and each with one to seven specific permit conditions — see paras. 2.2 and 2.5), it is more cost effective to tighten control over the endorsement of permit conditions by restricting the endorsement right to staff of relevant divisions.

Need to tighten permit control over import/export of DCs via public cargo working areas

2.28 Of the 2,461 permits for the import/export of DCs by sea via public cargo working areas in 2014 (see Note 14 to para. 2.12), the C&ED imposed permit conditions on 1,761 (72%) permits to enable its staff to arrange checking of DCs imported/exported prior to their loading to/unloading from the carriers. Audit is concerned that similar permit conditions were not imposed on the remaining 700 (28%) permits for control purposes. The C&ED needs to impose suitable permit conditions on all cases of import/export of DCs via public cargo working areas to guard against duty evasion through over-shipment/short-shipment of DCs.

2.29 For the 1,761 permits with permit conditions imposed, Audit noted that:

- (a) holders of 31 permits (27 Duty-paid Permits and four Removal Permits for import) were required to submit applications to the C&ED prior to their removal from the importing carriers for Customs officers' attendance for checking the dutiable goods (see para. 2.5(c)). In the event, the Customs' checking of DCs for 6 (19%) permits was conducted at public cargo working areas and that for 25 (81%) permits at other locations specified by the permit holders; and
- (b) holders of 1,730 permits (1,592 Export Permits and 138 Removal Permits for import) were required to send notifications to the C&ED 24 hours before the vanning/devanning operation of their containerised cargoes so that the C&ED could arrange selective checks (see para. 2.5(b)). Based on the notifications, the ODCA selected 227 (13%) of 1,730 vanning/devanning operations for checking. For 88 (39%) of these 227 selected cases, the checks were conducted at locations specified by permit holders other than public cargo working areas.

Taken together, of the 258 (31 plus 227) Customs' checks, 113 (25 plus 88) were conducted at locations other than public cargo working areas. The C&ED had

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escorted the conveyance of the checked DCs to/from public cargo working areas for 44 (39%) of the 113 cases but had no similar compensatory controls for the remaining 69 (61%) cases. Audit considers that for all cases of Customs' checking of DCs conducted at places other than public cargo working areas, the C&ED needs to put in place control to prevent the checked cargoes from being tampered with prior to their loading to/unloading from the carriers.

Need to take action on idle DC stocks in bonded warehouses

2.30 As a licensing condition, a bonded warehouse operator is required to file monthly returns to the C&ED to report any DCs which have been left for a period of more than three years in a warehouse. According to the Dutiable Commodities Regulations (Cap. 109A), the C&ED is empowered to sell such DCs by auction after serving the necessary notice on the owner and the DCs are not removed or re-entered in the warehouse records by the specified date. Proceeds of sale shall be used to pay any necessary expenses for the sale, duty or fee payable to the Government and the warehouse operators. Should the DCs be un-saleable or their saleable value would not cover the necessary expenses of sale, the C&ED may arrange for the destruction of the DCs.

2.31 The C&ED has laid down the following guidelines for staff in handling monthly returns of idle DC stocks from bonded warehouse operators, including:

- (a) conducting selective checks on the returns against the records in the CCS;
- (b) serving a notice on the DC owner requesting him to remove the DCs or apply for a Removal Permit to re-enter the DCs in the warehouse records. A copy of the notice will also be served to the warehouse operator for information;
- (c) for those owners who fail to respond to the notice, publishing a notice in the Gazette which shall contain the description of the DCs, quantities, name of the owner (if known) and the date on which the DCs were deposited in the related warehouse; and
- (d) arranging for the disposal by auction or destruction after the specified period in the notice.

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2.32 Audit noted that as at April 2015, 34 owners had DCs left idle for more than three years in 11 warehouses. Of the 34 owners, 16 held valid DC licences and 18 did not. An ageing analysis of these DCs shows that 43.2% of 42,224 bottles of liquor and 80.8% of 313,178 packs of tobacco had been kept in the warehouses for over ten years (see Table 5). C&ED staff had spent time on record checking and surprise inspections of the idle DC stocks over these years. According to the C&ED, it had urged the warehouse operators to contact the DC owners for arranging the DCs to be removed or their records in the warehouse updated. However, C&ED staff had not followed the guidelines to serve notices on the owners concerned. In Audit's view, the C&ED needs to exercise its statutory power to dispose of the idle DC stocks with a view to minimising the C&ED's administrative work caused by the prolonged storage.

Table 5

**Ageing analysis of idle DC stocks in 11 warehouses
(April 2015)**

Period of storage (Year)	16 owners with valid DC licences		18 owners without valid DC licences		Total	
	Liquor (Bottle)	Tobacco (Pack)	Liquor (Bottle)	Tobacco (Pack)	Liquor (Bottle)	Tobacco (Pack)
> 3 to 10	20,444	20,354	3,525	39,962	23,969 (56.8%)	60,316 (19.2%)
> 10 to 15	—	—	10,545	102	10,545 (25.0%)	102 (0.1%)
> 15 to 20	2,070	—	3,326	252,760	5,396 (12.8%)	252,760 (80.7%)
> 20 to 25	2,077	—	108	—	2,185 (5.1%)	—
> 25 to 30	—	—	129	—	129 (0.3%)	—
Total	24,591	20,354	17,633	292,824	42,224 (100.0%)	313,178 (100.0%)

Source: Audit analysis of C&ED records

Remarks: In September 2015, the C&ED informed Audit that action had been taken from May to August 2015 to properly deal with 26,988 (64%) of 42,224 bottles of liquor and 20,354 (6%) of 313,178 packs of tobacco (i.e. they were either removed under Duty-paid/Export Permits or destroyed, or their records in the warehouses were updated).

Audit recommendations

2.33 **Audit has *recommended* that the Commissioner of Customs and Excise should:**

- (a) **consider integrating the existing computer systems (ROCARS and the CCS) to enable electronic transfer of data for:**
 - (i) **the automatic selection of DC consignments for cargo examination using DC permit numbers; and**
 - (ii) **the automatic updating of the permit condition endorsement records after cargo examination;**
- (b) **consider the need for enhancement measures to ensure that DC permit numbers are input in ROCARS submissions;**
- (c) **take more stringent enforcement actions against all cases of non-compliance with the permit condition of land boundary customs clearance, seeking legal advice where appropriate;**
- (d) **remind the land control point staff to strictly follow the guidelines on conducting cargo examination of dutiable goods;**
- (e) **amend the cargo examination guidelines to bring the scope of check on DCs covered by Removal Permits on a par with that for Export and Duty-paid Permits;**
- (f) **tighten control over the endorsement of permit conditions by restricting the endorsement right to staff of relevant divisions;**
- (g) **impose suitable permit conditions on all cases of import/export of DCs by sea via public cargo working areas to guard against duty evasion through over-shipment/short-shipment of DCs;**

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- (h) **for all cases of import/export of DCs via public cargo working areas but with Customs' checking conducted at other places, put in place control to prevent the checked cargoes from being tampered with prior to their loading to/unloading from the carriers; and**
- (i) **serve notices of removal on owners of idle stocks of DCs and take appropriate actions to dispose of any unclaimed DCs.**

Response from the Government

2.34 The Commissioner of Customs and Excise agrees with the audit recommendations. He has said that the C&ED:

- (a) has kicked off enhancement work to enable electronic transfer of data between ROCARS and the CCS for the automatic selection of DC consignments for cargo examination. The C&ED will conduct a technical feasibility study on the automatic updating of permit condition endorsement records after cargo examination;
- (b) will consider suitable measures to ensure that DC permit numbers are input in ROCARS submissions. In the interim, the C&ED will remind licensees through mails and meetings of the Customer Liaison Groups on the correct input of DC permit numbers when lodging cargo information onto ROCARS;
- (c) has reminded all relevant personnel to strictly comply with the guidelines on conducting cargo examination of dutiable goods; and
- (d) will review all permit conditions and restrict the endorsement right on each permit condition to relevant divisions.

PART 3: ENFORCEMENT AGAINST ILLICIT DUTIABLE COMMODITIES AND MANAGEMENT OF SEIZED ITEMS

3.1 This PART examines the C&ED's enforcement actions against illicit DCs and management of seized items. Audit has found room for improvement in the following areas:

- (a) enforcement against abuse of duty-free cigarette concession (paras. 3.6 to 3.18); and
- (b) management of seized goods and vehicles (paras. 3.19 to 3.40).

Legislation

3.2 According to the Dutiable Commodities Ordinance, it is an offence to import, export, store and deliver DCs without a valid licence or permit granted by the C&ED. The offence attracts a maximum penalty of two years imprisonment and a fine of \$1 million. Smuggling of DCs is also an offence under the Import and Export Ordinance (Cap. 60) and attracts a maximum penalty of seven years imprisonment and a fine of \$2 million.

3.3 The Dutiable Commodities Ordinance also provides for a compounding scheme which allows the offender to pay a penalty in lieu of being prosecuted for the offence. The compounding scheme was introduced in 1996 with a view to saving the time and cost of legal proceedings in handling minor offences. An example of the compoundable offences is failing to declare or making a false declaration of the quantity of DCs carried by a person which is in excess of the duty-free concessions (such as a passenger is allowed to bring 19 sticks of cigarettes — see para. 1.12). The compound penalty for abusing the duty-free concessions is equivalent to five times the duty payable plus a fine of \$2,000.

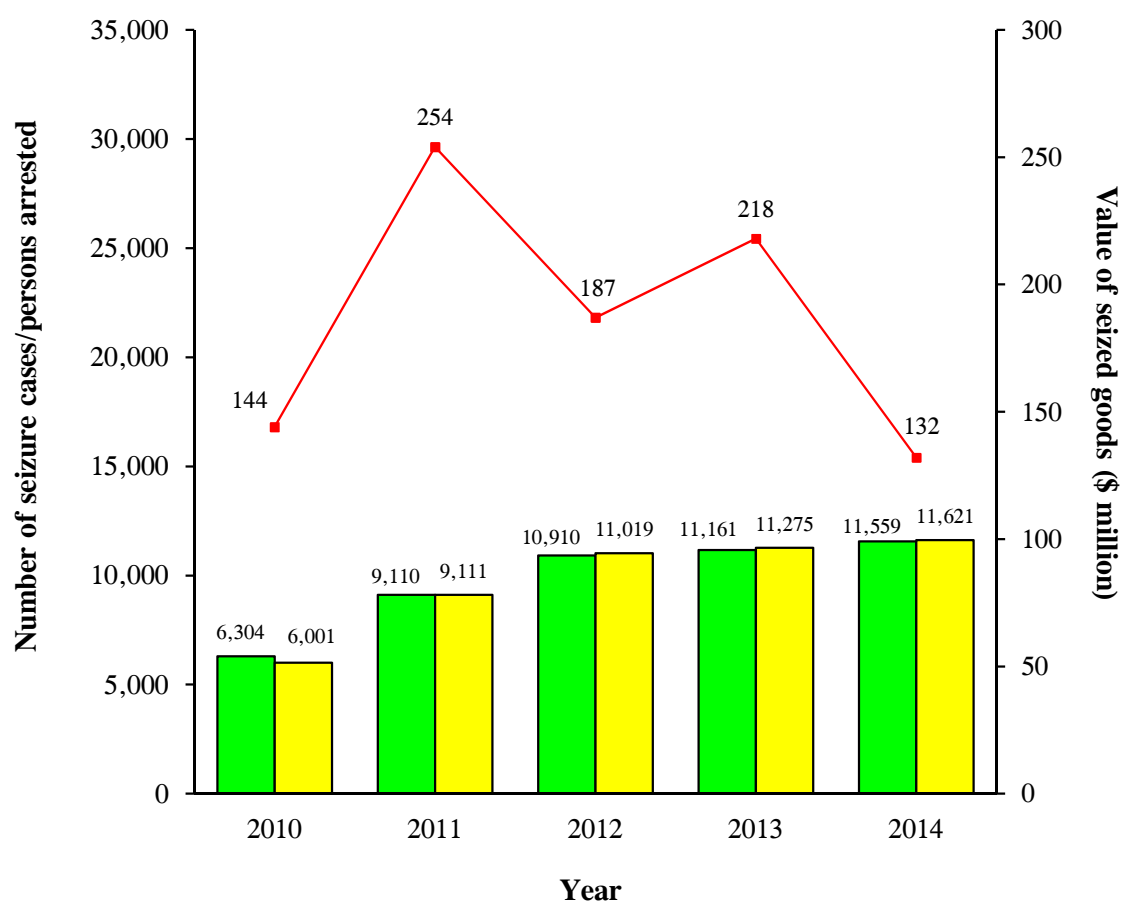
Enforcement against illicit dutiable commodities and management of seized items

Enforcement actions

3.4 To curb the inflow of illicit DCs at source, the BPB is responsible for inspecting cargoes imported or exported by air, land and sea, and processing travellers and their baggage at control points to detect any abuse of the duty-free concessions. Operations targeted at syndicated smuggling, distribution and street-level peddling of illicit DCs are launched regularly by the RGIB. The enforcement statistics from 2010 to 2014 are shown in Figures 3 to 5.

Figure 3

Seizure of illicit cigarettes (2010 to 2014)

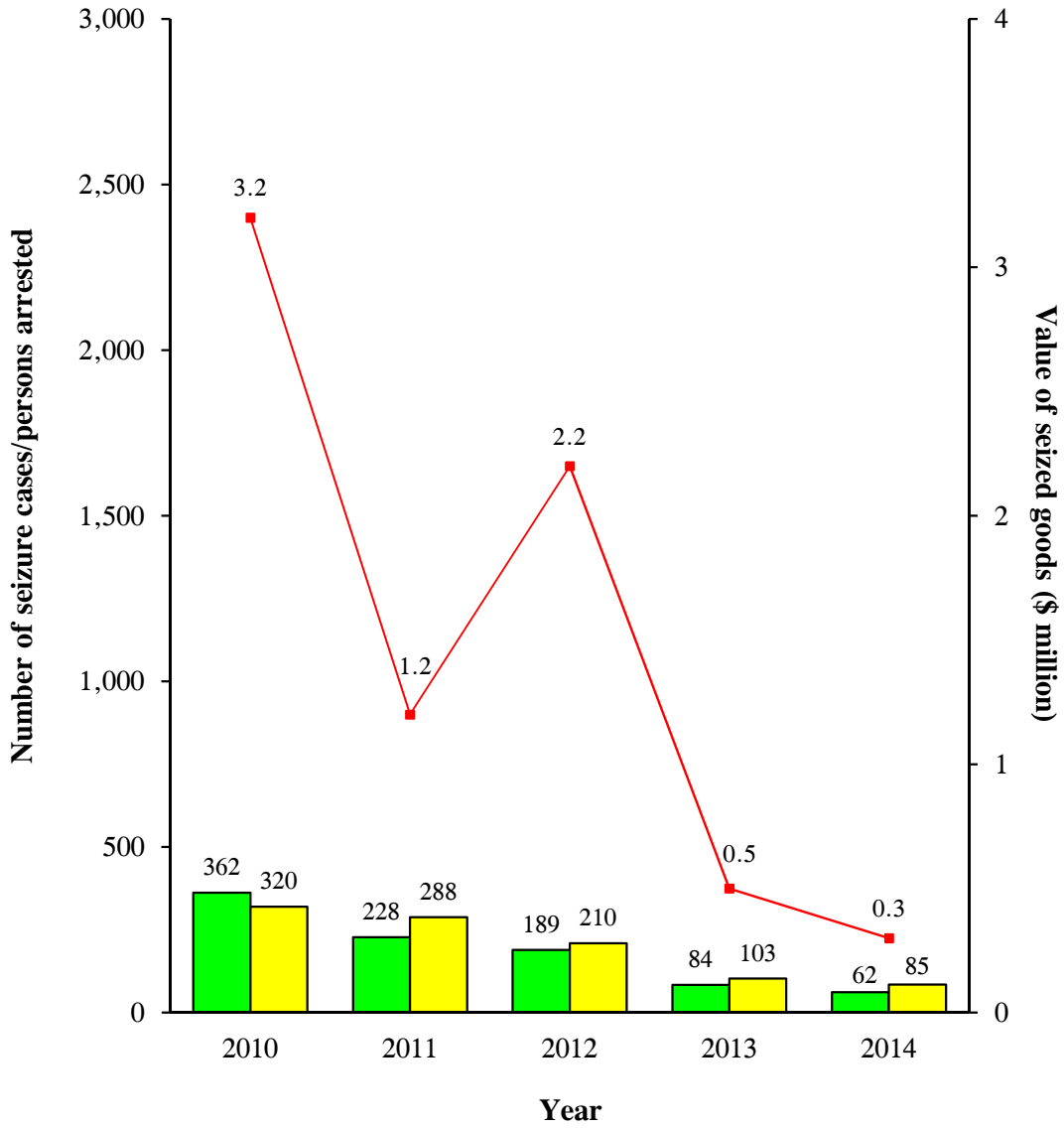


Legend: ■ Number of seizure cases
■ Number of persons arrested
—■— Value of seized goods

Source: C&ED records

Figure 4

Seizure of illicit hydrocarbon oil
(2010 to 2014)

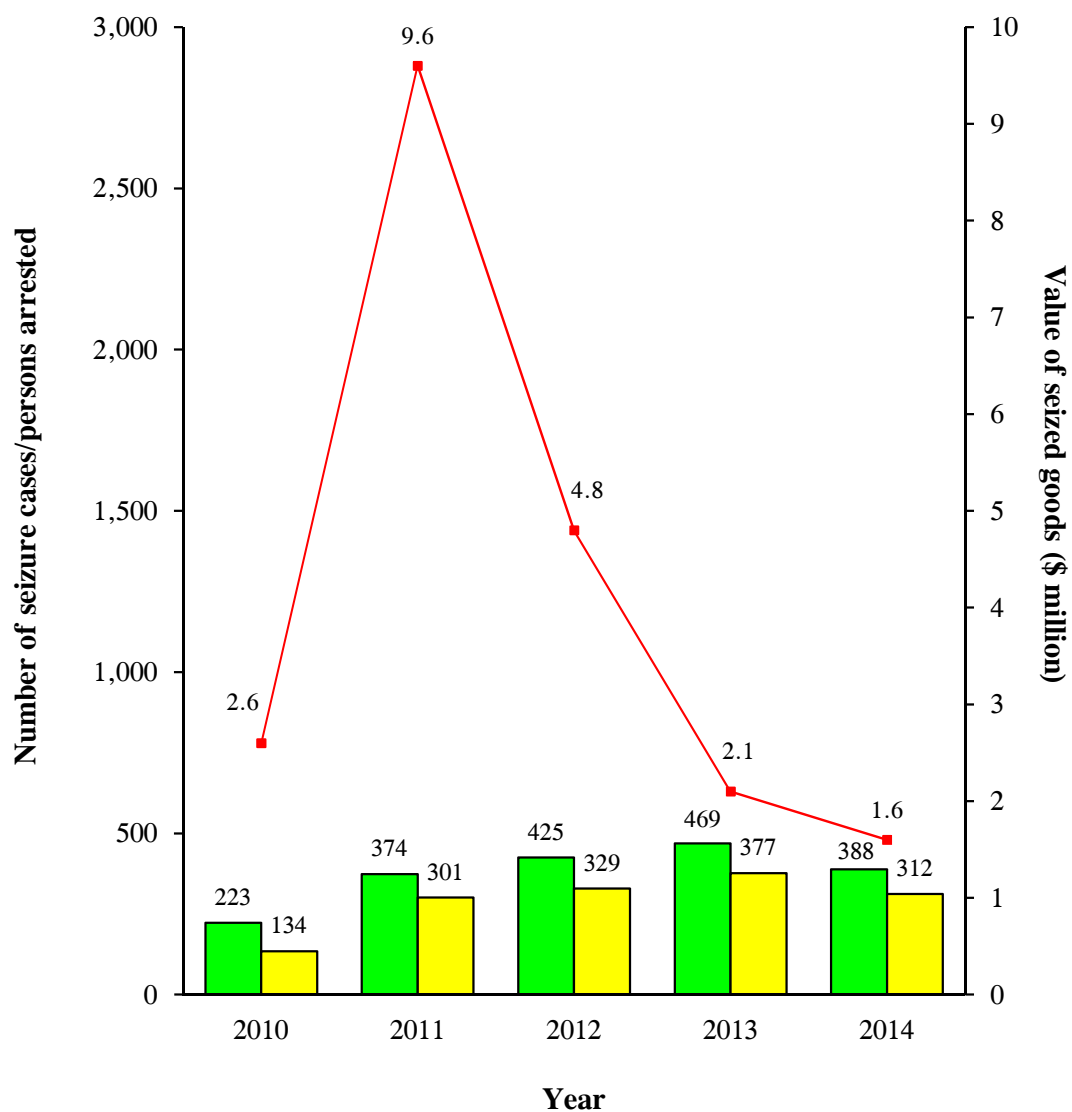


Legend: ■ Number of seizure cases
■ Number of persons arrested
—■— Value of seized goods

Source: C&ED records

Figure 5

**Seizure of illicit liquors
(2010 to 2014)**



Legend: ■ Number of seizure cases
■ Number of persons arrested
—■— Value of seized goods

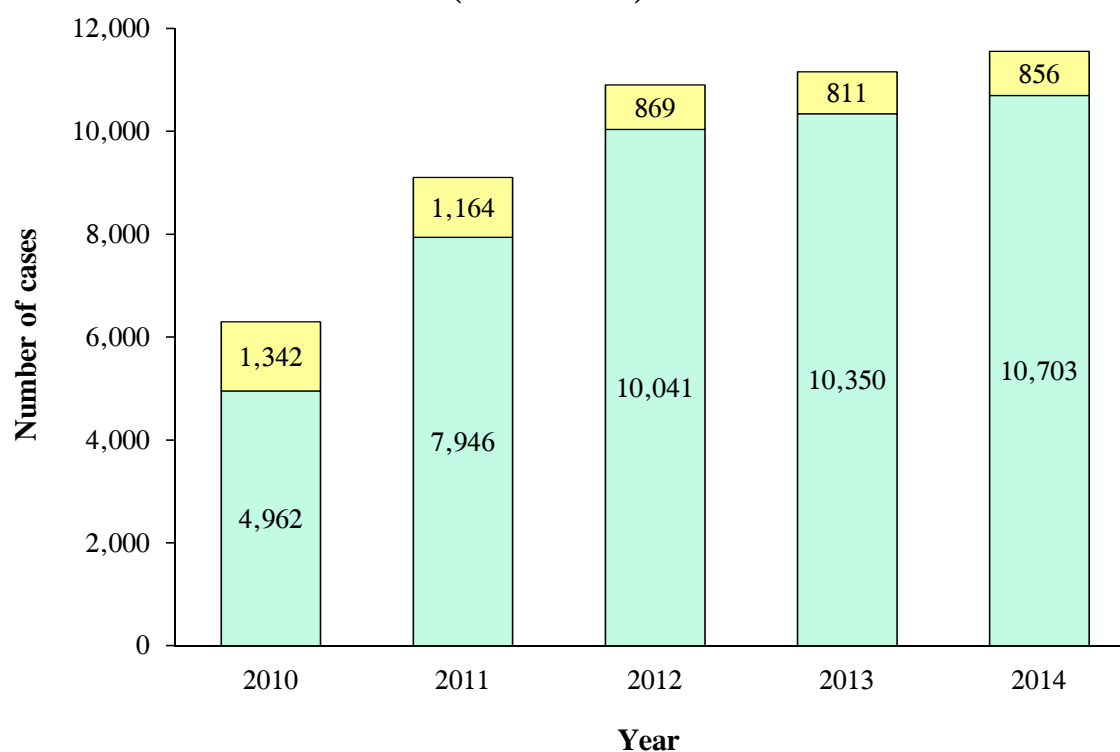
Source: C&ED records

Increasing trend in abuse of duty-free cigarette concession

3.5 In line with the Government’s tobacco control policy, the level of tobacco duty rate increased by 58% (Note 17) from 2010 to 2014. As reflected by the enforcement statistics in Figure 3, illicit cigarette activities had become more active over the same period. Among the 49,044 seizure cases for the five years, 90% (44,002 cases) were related to abuse of the duty-free concession. Figure 6 shows that abuse of the duty-free concession increased by 116% from 4,962 cases in 2010 to 10,703 cases in 2014.

Figure 6

**Analysis of illicit cigarette seizure cases
(2010 to 2014)**



Legend: Other illicit cigarette seizure cases
 Abuse of duty-free concession cases

Source: C&ED records

Note 17: From 2010 to 2014, the tobacco duty rate increased twice, i.e. by 41.5% in February 2011 and 11.7% in February 2014. The current duty rate for 1,000 sticks of cigarettes is \$1,906, i.e. 58% up from \$1,206 in 2010.

Enforcement against abuse of duty-free cigarette concession

3.6 As mentioned in paragraph 3.3, the offence of abuse of duty-free concessions may be dealt with by prosecution or compound penalty. The C&ED has laid down the following guidelines on handling compoundable offence:

- (a) no compounding shall be allowed if:
 - (i) the duty payable on the dutiable goods concerned is over \$10,000;
or
 - (ii) the offender has compounding records reaching the prescribed threshold in the preceding two years, including records of summons case arising from non-payment of compound penalty (Note 18); or
 - (iii) the offender does not have a fixed place of abode in Hong Kong for service of summons (in case he fails to pay the penalty) unless he pays immediately;
- (b) prosecution may be invoked against the offender if there is a reason to believe that the offender shall be better dealt with in court, e.g. joint possession of dutiable goods. In that case, the reason for invoking prosecution and not allowing compounding shall be recorded;
- (c) the offender is allowed to pay the penalty within ten calendar days from the date of offence at a designated Duty Collection Office after verifying the information of the place of abode provided by him; and
- (d) if the offender pays within the specified ten days, the dutiable goods shall be returned to him. If no payment is made within the specified ten days, the offender shall be prosecuted by way of summons for the offence.

Note 18: *When considering compounding an offence against a person, the case officer shall make reference to the Customs and Excise Intelligence System for any previous compounding records of the person concerned.*

Analysis of the enforcement actions taken

3.7 Of the 44,002 cases of abuse of duty-free cigarette concession detected from 2010 to 2014, the C&ED dealt with 37,800 (86%) cases by compound penalty and 1,584 (4%) cases by prosecution. The remaining 4,618 (10%) cases were compounding cases but prosecution actions were subsequently taken as the offenders failed to pay the compound penalty within the specified ten days (see para. 3.6(d)).

3.8 In terms of offenders, 8,096 (18%) of the 44,002 cases of abuse of duty-free cigarette concession were related to 3,184 repeated offenders. The remaining 35,906 (82%) cases were related to one-time offenders.

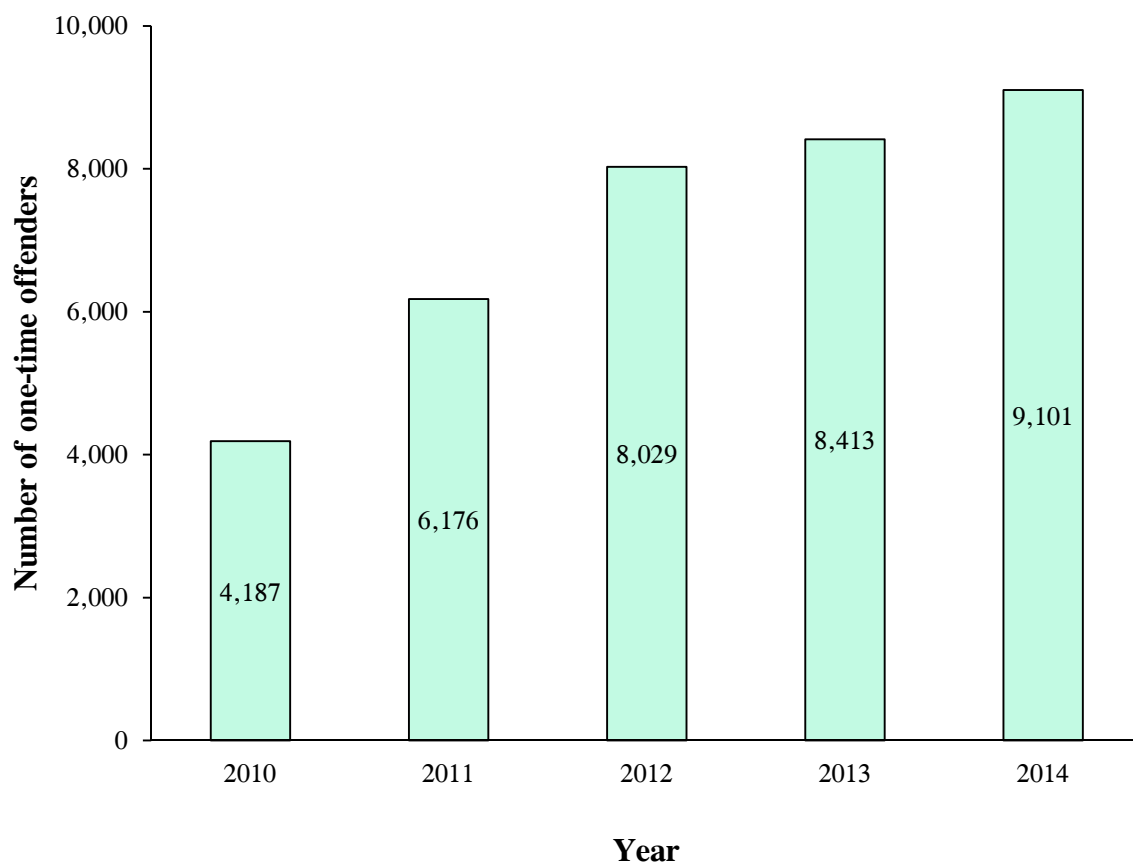
Need for more publicity and education

3.9 For the 35,906 one-time offender cases, the C&ED seized a total of 16.4 million sticks of cigarettes. On average, each case involved 457 sticks of cigarettes. The C&ED dealt with 31,687 (88%) cases by compound penalty and 997 (3%) by prosecution. The remaining 3,222 (9%) cases were prosecuted after the offenders concerned had failed to pay the compound penalty within the specified ten days.

3.10 A trend analysis shows that the number of one-time offenders increased from 4,187 in 2010 by 117% to 9,101 in 2014 (see Figure 7). The increasing number of these relatively minor cases inevitably increased the workload of the Customs officers and diverted their attention from the more important enforcement duties. The C&ED needs to monitor the situation closely and take enhanced measures where warranted by circumstances. In the meantime, the C&ED may consider stepping up publicity and education to encourage law-abiding behaviour as part of the strategy to tackle the increasing problem of abuse of duty-free concession.

Figure 7

**Increasing number of one-time offenders
(2010 to 2014)**



Source: Audit analysis of C&ED records

Need for stronger enforcement actions against recalcitrant offenders

3.11 For the 8,096 repeated offender cases, the C&ED seized a total of 5.5 million sticks of cigarettes. On average, each case involved 679 sticks of cigarettes (i.e. 49% more than the average of 457 sticks for the one-time offender cases). The C&ED dealt with 6,113 (76%) of these 8,096 repeated offender cases by compound penalty and 587 (7%) by prosecution. The remaining 1,396 (17%) offences were dealt with by prosecution after the offenders concerned had failed to pay the compound penalty within the specified ten days. Table 6 is an analysis of the 3,184 repeated offenders by the number of offences.

**Enforcement against illicit dutiable commodities
and management of seized items**

Table 6

**Analysis of the 3,184 repeated offenders by the number of offences
(2010 to 2014)**

Number of offences per offender	Number of offenders	Total number of offences	Total number of sticks of cigarettes involved
16	1	16	47,679
12	1	12	12,320
10	7	70	74,631
9	7	63	62,553
8	16	128	120,764
7	30	210	185,184
6	47	282	216,135
5	88	440	412,328
4	201	804	629,868
3	499	1,497	968,604
2	2,287	4,574	2,731,313
Total	3,184	8,096	5,461,379

Source: Audit analysis of C&ED records

3.12 Audit further analysed the enforcement actions taken against the 109 repeated offenders who had committed six offences or more each for the past five years from 2010 to 2014. Audit has found that:

- (a) two (2%) of the 109 repeated offenders had not been prosecuted although they had compounding records reaching the threshold laid down in the enforcement guidelines within a two-year period (see para. 3.6(a)(ii)). In September 2015, the C&ED informed Audit that prosecution actions had

Enforcement against illicit dutiable commodities and management of seized items

not been taken because in one case, two offences took place within a time span of two days such that the compounding records for the first one were yet to be updated to the system. In the other case, there was a misinterpretation of a summons case relating to non-payment of compound penalty as a prosecution case in counting the compounding records. In Audit's view, the C&ED needs to tighten monitoring of enforcement actions against repeated offenders with a compounding history and take measures to ensure that the information in the enforcement database is kept up-to-date; and

- (b) 27 (25%) of them had not been prosecuted at all for any of their offences because the enforcement guidelines required the Customs officers to take into account the offenders' offence records for the past two years only. For similar reasons, another nine (8%) of them were also not prosecuted for any of their offences initially. They were only prosecuted after failing to pay some of the compound penalty within the specified ten days. Given the worsening situation of abuse of the duty-free concession, there is a need to take stronger enforcement actions against recalcitrant offenders to achieve the necessary deterrent effect. In this connection, the C&ED needs to consider amending the enforcement guidelines such that all of the offenders' past offence records (not limiting to those within the preceding two years) shall be taken into account in determining whether they should be prosecuted or allowed to pay compound penalty in lieu.

Need for stronger enforcement actions against repeated offenders with non-payment records

3.13 According to the enforcement guidelines, a summons will be issued if the offender fails to pay the compound penalty within the specified ten-day period. From 2010 to 2014, there were 4,618 summons cases relating to non-payment of compound penalty. As at 30 April 2015, 117 (3%) of these 4,618 cases remained outstanding as the offenders concerned had failed to show up at court. Tremendous efforts had to be made by the C&ED to bring them to justice (e.g. issuing warrants of arrest). An ageing analysis of these 117 outstanding summons cases shows that 10 (9%) cases had been outstanding for more than three years.

Enforcement against illicit dutiable commodities and management of seized items

3.14 In May 2014, a Magistrate queried why an offender who had a number of compounding records including summons cases arising from non-payment of compound penalty was not formally charged for his subsequent offence but allowed to be compounded. The Magistrate expressed concern that settling such cases by way of compounding would defeat the purpose of the compounding scheme (see para. 3.3) and undermine its deterrent effect. Of the 109 repeated offenders mentioned in paragraph 3.12, 48 (44%) had such non-payment records, i.e. they had been summonsed for failing to pay the compound penalty within the specified ten days. However, the C&ED still dealt with their subsequent offences by compound penalty.

3.15 In June 2014, the C&ED issued a bulletin requiring Customs officers to instigate prosecution actions against repeated offenders with past records of non-payment of compound penalty. However, Audit noted that after the issue of the bulletin, there were still six cases (relating to six (6%) of the 109 repeated offenders) dealt with by compound penalty despite the offenders' previous non-payment records. The C&ED needs to tighten monitoring of enforcement actions against repeated offenders with past records of non-payment of compound penalty.

Need to ensure accuracy of law enforcement database

3.16 When considering compounding an offence against a person, the responsible Customs officer is required to make reference to the previous compounding/prosecution records stored in the computerised Customs and Excise Intelligence System. Accuracy of information in the System is important for Customs officers to make informed decision on the enforcement action to be taken against an offender. However, in the course of reviewing the 8,096 repeated offender cases (see para. 3.11), Audit noted that there were 27 offence records in the System with incorrect offenders' identities. The C&ED needs to take measures to ensure accuracy of the law enforcement database (such as putting in place validation check).

Audit recommendations

3.17 **Audit has *recommended* that the Commissioner of Customs and Excise should:**

- (a) **step up publicity and education to encourage law-abiding behaviour of incoming passengers when carrying DCs into Hong Kong and closely monitor the effectiveness of such measures in addressing the increasing problem of one-time abusers of the duty-free concessions;**
- (b) **take stronger enforcement actions against recalcitrant offenders by amending the enforcement guidelines such that all their past offence records will be taken into account in determining whether they should be prosecuted or allowed to pay compound penalty in lieu;**
- (c) **tighten monitoring of enforcement actions against repeated offenders with a compounding history or records of non-payment of compound penalty; and**
- (d) **take measures to ensure that the information in the law enforcement database is up-to-date and accurate.**

Response from the Government

3.18 The Commissioner of Customs and Excise agrees with the audit recommendations. He has said that the C&ED will:

- (a) review the enforcement guidelines on recalcitrant offenders to cope with the prevailing situation; and
- (b) carry out system enhancement work and impose a supervisory checking mechanism to ensure that the information in the law enforcement database is up-to-date and accurate.

Management of seized goods and vehicles

3.19 The C&ED has laid down guidelines for its staff on the receipt, handling, storage and disposal of seized items (Note 19). Having regard to the quantity, value, significance, operational convenience and the relevant instructions concerning the safe or proper custody of the seized goods, they may be stored in one of the departmental seized goods stores (i.e. an exhibit store or a strong room of the major operation units or a C&ED godown — Note 20). All seized vehicles are stored in a vehicle detention centre in Sha Tin. For security control, all the departmental seized goods stores and the vehicle detention centre are installed with closed circuit television systems.

3.20 *Storage records.* Whenever an item has been seized, the case officer is required to input the particulars of the seized item into the computerised Case Processing System (CAPS) which serves as primary records of seizure. On each occasion when a seized item is deposited into, removed from or transferred between storage facilities, the relevant CAPS records are updated accordingly. To enhance data accuracy and safeguard integrity of evidence relating to the seized items, staff members concerned are required to conduct physical count of the seized items in accordance with the laid-down guidelines.

3.21 *Inspection and stocktaking.* In accordance with the Stores and Procurement Regulations and the C&ED's guidelines, surprise inspections of the departmental seized goods stores and the vehicle detention centre shall be conducted at quarterly intervals. In each inspection, at least 3% of the seized items shall be checked. Stocktaking of all seized goods shall be conducted every 18 months for exhibit stores and every two years for godowns (Note 21). The Internal Audit Division of the C&ED also conducts periodic surprise inspections of the departmental seized goods stores to ensure that these stores are properly maintained.

Note 19: *Seized items include detained articles such as those detained for payment of duty or penalty under the Dutiable Commodities Ordinance.*

Note 20: *As at March 2015, the C&ED had 47 exhibit stores, five strong rooms and six godowns for the storage of goods seized under the Dutiable Commodities Ordinance and other legislation within the C&ED's purview. Of the six godowns, two (one in Chai Wan and the other in Kwai Chung) were also used for storing dangerous goods. The C&ED also hired storage space in commercial godowns. For 2014-15, the rental expenditure was \$11.3 million.*

Note 21: *Surprise inspection and stocktaking requirements for seized articles stored in commercial godowns were introduced in 2014.*

Enforcement against illicit dutiable commodities and management of seized items

Need to improve safe custody of seized goods and documentary exhibits

3.22 In a surprise inspection of the seized goods in Chai Wan godown in 2013, the Internal Audit Division of the C&ED found a case of discrepancy in the physical quantity of seized motor spirit with the CAPS records. All the original statements of witnesses could not be found in the case file, leaving copies only. Details are shown in Case A.

Case A

Seized motor spirit case with discrepancy in physical quantity and documentary exhibits not located

1. In an anti-illicit fuel operation of 2002, the C&ED seized 8,620 litres of motor spirit comprising 5,120 litres in 256 jerry cans and 3,500 litres in ten plastic tanks. The seized motor spirit was stored in a commercial godown after changing some of the containers, i.e. from ten plastic tanks into 18 metal drums.

2. In 2003, warrants of arrest were issued against some of the accused who failed to turn up in court. Pending the arrest of the absconded offenders, the seized motor spirit still had to be kept as case exhibits. In December 2011, the motor spirit in jerry cans and metal drums was transferred to Chai Wan godown to save rental cost.

3. In a review of the long outstanding warrants of arrest in 2012 (see para. 3.30), the C&ED could not locate all the original statements of witnesses. There were only copies in the case file.

4. In a surprise inspection of the seized goods in Chai Wan godown in August 2013, the C&ED's Internal Audit Division found that all the jerry cans were almost empty probably due to evaporation of the motor spirit over the years. The Internal Audit Division recommended conducting a review of the long outstanding seizure cases so that the seized goods could be disposed of as soon as possible to free up storage space for those from the commercial godown or newly seized goods. In October 2014, the RGIB staff inspected the jerry cans and confirmed that they were empty. As for the 3,500 litres of motor spirit in the metal drums, it was estimated that about 80% (i.e. 2,800 litres) remained (see Photograph 1).

Source: C&ED records

Photograph 1

**Empty jerry cans and metal drums partly filled with motor spirit
at Chai Wan godown**



Source: Photograph taken by Audit staff in June 2015

3.23 In light of the control weaknesses in handling the physical and documentary exhibits revealed in Case A, Audit examined other seizure cases. Similar problems were found as detailed in paragraphs 3.24 to 3.26.

3.24 ***Five more cases with discrepancies in physical quantities of motor spirit.*** In July 2015, Audit inspected five cases of seized motor spirit stored in Kwai Chung godown. Audit found that all the jerry cans containing the seized motor spirit were of unusually light weight. Upon Audit's request, the C&ED took measurement and confirmed that there were discrepancies in the physical quantities of the motor spirit with the CAPS records in all five cases (see details in Table 7).

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Table 7

**Discrepancies in quantities of seized motor spirit
stored in Kwai Chung godown
(July 2015)**

Case	Date of seizure (Note)	Quantity per CAPS records (a) (Litre)	Physical quantity measured by C&ED in July 2015 (b) (Litre)	Discrepancies	
				(c) = (b)-(a) (Litre)	(d) = $\frac{(c)}{(a)} \times 100\%$
B	12.6.2001	410	25.0	(385.0)	(93.9%)
C	1.8.2002	100	0.2	(99.8)	(99.8%)
D	1.8.2002	10	0	(10.0)	(100.0%)
E	16.8.2002	290	50.5	(239.5)	(82.6%)
F	6.1.2003	210	17.0	(193.0)	(91.9%)
Overall		1,020	92.7	(927.3)	(90.9%)

Source: Audit analysis of C&ED records

Note: The seized motor spirit of these cases was initially stored in a commercial godown. In October 2012, the motor spirit was transferred to Kwai Chung godown to save rental cost.

3.25 Audit found that all six cases (i.e. Cases A to F) with discrepancies in quantities of motor spirit shared the following common control weaknesses:

- (a) unlike other seized articles, the jerry cans and metal drums containing the motor spirit were not sealed. According to the C&ED, there were practical difficulties to affix seals to these containers. As such, the motor spirit stored in these unsealed containers was exposed to tampering and evaporation risks;

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- (b) there was no laid-down procedure for surprise check and stocktaking of seized goods in commercial godowns before 2014 (see Note 21 to para. 3.21). In other words, for some nine years (before transfer to Chai Wan godown in 2011), the motor spirit of Case A was not subject to any physical checks. Similarly, for some nine to eleven years, the motor spirit of Cases B to F was not subject to any physical checks before transfer to Kwai Chung godown; and

- (c) physical stocktaking of the motor spirit for Case A was conducted in 2011 when it was transferred to Chai Wan godown. Similar physical stocktaking was conducted in 2012 for the motor spirit of Cases B to F upon transfer to Kwai Chung godown. Thereafter, the motor spirit of all six cases was covered in the biennial stocktaking exercises (see para. 3.21) of the respective godowns. However, no discrepancy in quantity was reported in all these stocktaking exercises (except for the Internal Audit Division's inspection of Case A in August 2013). The stocktaking results were not consistent with the Internal Audit Division's suggestion that the motor spirit had probably evaporated over time (see para. 4 of Case A).

3.26 ***One more case with documentary exhibit not found in case file.*** Audit examined the documentary exhibits kept in the case files of ten seizure cases (including Cases B to F). In one case (Case E), the original interview notes of a defendant could not be located, i.e. only copies were found in the case file.

3.27 It is a cause for concern that both physical and documentary exhibits which could be used for prosecution were not properly handled for Cases A to F. Upon Audit's enquiries, in September 2015, the C&ED said that:

- (a) it had obtained advice from the Government Laboratory that motor spirit was volatile with an evaporation rate eight times faster than 95% ethyl alcohol. In the C&ED's view, the discrepancies in physical quantities of the seized motor spirit were due to natural evaporation over the years of storage. It was a matter of lack of proper record to note the decreasing quantity of motor spirit as a result of natural evaporation; and

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- (b) both Cases A and E (with mislaid documentary exhibits) involved long outstanding warrants of arrest. In 2008, the C&ED reviewed case documents of long outstanding warrants of arrest cases. In 2009, the C&ED issued guidelines requiring the staff concerned to ensure incorporation of all original copies of documents in the relevant case files and their safe custody.

3.28 Audit considers that the C&ED needs to draw lessons from these cases to improve the safe custody of physical and documentary exhibits. For physical exhibits, there is a need to improve the storage method of volatile materials and enhance the stocktaking procedures for ascertaining physical quantities so that any discrepancies can be detected for early remedial action. For documentary exhibits, there is a need to conduct a comprehensive check on other seizure cases with outstanding legal proceedings to ascertain whether there are problems similar to Cases A and E. The C&ED needs to step up efforts to locate any mislaid documents and take measures to ensure compliance with the 2009 guideline requirements.

Need to monitor progress of seizure cases under legal proceedings

3.29 As at April 2015, there were 750 seized dutiable goods cases still in progress, comprising 45 (6%) cases under investigation, 65 (9%) cases under legal proceedings and 640 (85%) cases pending forfeiture and disposal of the seized items.

3.30 Of the 65 cases under legal proceedings, the defendants of 23 (35%) cases had failed to appear in court and warrants of arrest had been issued accordingly. In 19 (83%) of the 23 cases, the warrants of arrest had been issued for over five years. According to the C&ED's guidelines, long outstanding warrants of arrest should be reviewed every five years to determine the way forward. Audit found that the five-year review frequency was not observed in the 19 cases, i.e. the stipulated reviews had been overdue for an average of 7.8 years (ranging from 5.3 to 12.7 years). There is a need to closely monitor the progress of seizure cases under legal proceedings.

***Need to expedite action on cases
pending forfeiture and disposal of seized items***

3.31 According to the Dutiable Commodities Ordinance, wherever there occurs a contravention of the Ordinance in respect of any goods, such goods shall be liable to forfeiture whether or not any person is convicted of any offence. The C&ED has laid down the following requirements on the forfeiture and disposal of seized articles:

- (a) ***Obtaining a confiscation order.*** After the conclusion of criminal proceedings relating to the seized articles, the Service Prosecution Group of the C&ED is responsible for applying to the court for forfeiture proceedings if there is a claim for the seized goods. For cases without any notice of claim received by the C&ED, the seized goods shall be deemed as forfeited in accordance with the Dutiable Commodities Ordinance and the Service Prosecution Group shall issue a confiscation order accordingly;
- (b) ***Obtaining a destruction certificate.*** After a confiscation order has been obtained for articles that should be disposed of by destruction (e.g. illicit cigarettes), an application should be made to the C&ED's Supplies Section for a destruction certificate; and
- (c) ***Disposal of auctionable goods.*** For auctionable goods such as vehicles, a draft auction list should be prepared for the Government Logistics Department's consideration and auction arrangement after obtaining the confiscation order.

3.32 In 2012, Audit completed a review of the management of intellectual property rights enforcement work of the C&ED (Chapter 6 of the Director of Audit's Report No. 59 of October 2012). The review found that there were delays in arranging forfeiture and destruction of seized infringing articles. Since then, the C&ED has implemented the following measures to monitor the management of seized goods:

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- (a) ***Monitoring long outstanding cases.*** Since September 2012, monthly reports from the CAPS have been generated for the Review Committee of Seizure Management (Note 22) to monitor the progress of disposal actions on seized goods. Separate alerts have also been generated for cases outstanding for more than 2.5 years from the dates of seizure (defined as long outstanding by the C&ED) for special attention; and

- (b) ***Monitoring cases with incomplete tasks within specified timeframe.*** In 2014, the C&ED specified that the following cases should be brought up for monitoring by the respective Branch Heads and follow-up actions by relevant staff:
 - (i) cases with notices of claims which have not been brought up to the Service Prosecution Group of the C&ED for forfeiture application for two months from the dates of conclusion of the criminal proceedings;
 - (ii) concluded cases which have not applied for destruction certificates after 30 days from the dates of receipt of confiscation orders;
 - (iii) concluded cases pending destruction after 60 days from the dates of receipt of destruction certificates; and
 - (iv) concluded cases pending disposal after 90 days from the dates of receipt of confiscation orders.

3.33 Prolonged holding of seized goods and vehicles should be avoided as they take up storage space and their resale value (for auctionable items) could diminish with time. From 2012-13 to 2014-15, the C&ED disposed of a total of 131,931 items of seized goods and 487 seized vehicles related to 15,462 seizure cases of DCs and other infringing articles. However, Audit examination of the storage records of DC-related seizure cases as at April 2015 has revealed that there is still a need to expedite action to clear the long outstanding cases (see paras. 3.34 and 3.35).

Note 22: *The Committee, chaired by an Assistant Commissioner of the C&ED, is responsible for monitoring the performance of seizure management and providing steer for clearing long outstanding cases with seized or detained articles.*

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3.34 *Seized dutiable goods pending disposal/destruction.* As at April 2015, there were 490 cases of seized dutiable goods kept in the godowns. Of the 490 cases, 483 cases (involving 4,095 items) were pending disposal/destruction, i.e. concluded cases or cases without prosecution and their seized items had been deemed as forfeited. An ageing analysis of the 483 cases shows that 35 (7%) cases had been outstanding for more than one year (see Table 8). In September 2015, the C&ED informed Audit that:

- (a) the normal processing time for completion of investigation into forfeiture cases was 150 days from the dates of conclusion of the criminal proceedings or dates of seizure for cases without prosecution. Lengthy processing time was required for some cases especially those involved appeals, forfeiture hearings and warrants of arrest; and
- (b) from May to August 2015, action had been taken to dispose of the seized goods of 304 of the 483 outstanding cases mentioned in Table 8.

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Table 8

**Ageing analysis of seized dutiable goods pending disposal/destruction
(April 2015)**

Number of years since the case was concluded or the seized goods were deemed as forfeited for a case without prosecution (Year)	Case pending confiscation order (Number)	Case with confiscation order pending destruction certificate (Number)	Case pending disposal/destruction (Number)	Total (Number)
≤ 1	161	138	149	448
> 1 to 2	4	—	21	25
> 2 to 5	2	—	4	6
> 5 to 10	3	—	—	3
> 10	1	—	—	1
Total	171	138	174	483

Source: Audit analysis of C&ED records

3.35 **Seized vehicles pending disposal.** As at April 2015, there were 158 seized vehicles kept in the vehicle detention centre, of which 141 were pending disposal, i.e. concluded cases or cases without prosecution and their vehicles had been deemed as forfeited. An ageing analysis of the 141 seized vehicles pending disposal shows that 97 (69%) had been outstanding for more than one year (see Table 9). In September 2015, the C&ED informed Audit that:

- (a) the processing time for disposal of vehicles was also lengthy because it involved checking the information of the vehicles with the TD and arrangement of auctions or sale contracts; and

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- (b) from May to August 2015, 85 of the 141 vehicles mentioned in Table 9 were disposed of by auction (12 vehicles) and as scrap (73 vehicles), and two vehicles were returned to the owners concerned.

Table 9

**Ageing analysis of seized vehicles pending disposal
(April 2015)**

Number of years since the case was concluded or the seized vehicle was deemed as forfeited for a case without prosecution (Year)	Seized vehicle pending confiscation order (Number)	Seized vehicle with confiscation order pending disposal (Number)	Total (Number)
≤ 1	21	23	44
>1 to 2	1	30	31
>2 to 5	2	12	14
>5 to 10	1	45	46
>10	1	5	6
Total	26	115	141

Source: Audit analysis of C&ED records

Remarks: Since vehicles are auctionable items, a destruction certificate is not required for their disposal.

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Need to review storage space requirements

3.36 As at June 2015, the C&ED had six godowns with a total floor area of 27,810 square metres (m²) for the storage of seized goods (see Table 10). Five of the godowns are in government-owned premises and one (i.e. the Logistics Centre) is in a commercial building. The annual rent for the Logistics Centre under a three-year tenancy (from 2013 to 2016) is \$6.9 million. The C&ED also rented storage space of 13,910 cubic metres in other commercial godowns (mainly for cold storage) at a total cost of \$4.4 million in 2014-15.

Table 10

Occupancy rates of C&ED godowns (2013-14 to 2015-16)

C&ED godown	Area (m ²)	Occupancy rate		
		2013-14 (%)	2014-15 (%)	2015-16 (up to June 2015) (%)
1. Kwai Chung (including Dangerous Goods Store)	9,265	92	87	64
2. Cheung Sha Wan	8,665	91	91	85
3. Chai Wan (including Dangerous Goods Store)	5,204	77	69	84
4. Logistics Centre	4,530	76	92	98
5. Airport	101	95	95	89
6. Lo Wu	45	47	69	71
Overall	27,810	86	86	80

Source: C&ED records

3.37 With the disposal of 131,931 items of seized goods (both DCs and other non-DC items) in the past three years (see para. 3.33), the overall occupancy rate of the six godowns had decreased from 86% in 2013-14 to 80% in June 2015. In particular, the occupancy rate of Kwai Chung godown had decreased from 92% to

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64% (see Table 10 and Photograph 2). Given that the C&ED has also put in place measures to monitor and clear the long outstanding seizure cases, there could be reduction in the overall storage space requirement in the long term. The C&ED needs to conduct a review in this regard to see if there is scope for reducing the leased storage spaces in the Logistics Centre.

Photograph 2

Available storage space in Kwai Chung godown



Source: Photograph taken by Audit staff in July 2015

3.38 As for the vehicle detention centre which covers a site area of 45,828 m² in Sha Tin, the occupancy rate had decreased from 76% in 2011-12 to 63% in June 2015. According to the C&ED, the Sha Tin site has been earmarked for use by a works project of the Drainage Services Department in 2017. Audit considers that the C&ED needs to take the opportunity of reprovisioning the vehicle detention

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centre to critically review the actual vehicle storage requirements, taking into account the on-going measures to monitor and clear the long outstanding seized vehicle cases.

Audit recommendations

3.39 Audit has *recommended* that the Commissioner of Customs and Excise should:

- (a) draw lessons from Cases A to F (see paras. 3.22 to 3.26) to improve the safe custody of physical and documentary exhibits, including:**
 - (i) improving the storage method of volatile seized goods;**
 - (ii) enhancing the stocktaking procedures for ascertaining physical quantities of seized goods so that any discrepancies can be detected for early remedial action;**
 - (iii) conducting a comprehensive check on other seizure cases with outstanding legal proceedings to ascertain whether there are problems similar to Cases A and E for documentary exhibits; and**
 - (iv) stepping up efforts to locate any mislaid documents and taking measures to ensure compliance with the 2009 guideline requirements;**
- (b) closely monitor the progress of seizure cases under legal proceedings, such as the compliance with the stipulated frequency of review of outstanding warrants of arrest;**
- (c) expedite action to clear long outstanding cases of seized goods and vehicles;**
- (d) conduct a review of the long-term storage requirements of seized goods to see if there is scope for achieving cost savings by reducing the leased storage spaces; and**

- (e) **in the planned reprovisioning of the vehicle detention centre, critically review the actual vehicle storage requirements, taking into account the on-going measures to monitor and clear the long outstanding seized vehicle cases.**

Response from the Government

3.40 The Commissioner of Customs and Excise agrees with the audit recommendations. He has said that the C&ED:

- (a) has taken measures to improve the stock recording and checking of volatile seized goods, and is exploring ways to improve the storage of volatile seized goods. A comprehensive check on other seizure cases with outstanding legal proceedings was kicked off in September 2015 to ensure compliance with the 2009 guideline requirements. Efforts have also been taken to locate any mislaid documents;
- (b) has put in place a quarterly reporting system for monitoring the progress of seizure cases under legal proceedings;
- (c) has already put in place a mechanism to monitor seizure disposal actions and long outstanding cases. The C&ED will continue such monitoring to prevent any unnecessary delays in seizure disposal;
- (d) has put in place on-going measures to monitor and clear the outstanding seizure cases. Hence, the yearly total rental costs for storage of seized goods had been reduced from \$16.7 million in 2011-12 to \$11.3 million in 2014-15. The C&ED will review the long-term storage requirement of seized goods and critically examine if there is scope for achieving further cost savings; and
- (e) will review the vehicle storage requirements, taking into account the enforcement needs and progress in disposal of seized vehicles.

PART 4: ADMINISTRATION AND PROTECTION OF FIRST REGISTRATION TAX

4.1 This PART examines the C&ED's efforts in administering and protecting FRT. Audit has found room for improvement in the following areas:

- (a) control over registered traders (paras. 4.11 and 4.12);
- (b) control over reassessment cases (paras. 4.13 to 4.16); and
- (c) enforcement against contravention cases (paras. 4.17 to 4.20).

Administration of FRT

4.2 All motor vehicles for use on the roads of Hong Kong and have not been first registered in Hong Kong are subject to the FRT under the Motor Vehicles (First Registration Tax) Ordinance. The TD is responsible for the overall administration of the FRT. The Commissioner for Transport has authorised C&ED officers to exercise certain powers and duties under the Ordinance, such as registering motor vehicle traders, processing import returns and PRP lists (Note 23), assessing the provisional taxable values of motor vehicles, and taking enforcement action on any contravention cases.

4.3 ***Registration of motor vehicle traders.*** A person who carries on business of importing and/or distributing motor vehicles for use in Hong Kong is required to be registered within 30 days of commencing that business. As at April 2015, there were 1,974 registered motor vehicle traders. A registered trader has to comply with the following statutory provisions for the import and distribution of motor vehicles:

- (a) a registered importer is required to file an import return within 30 days of the importation and not less than five working days before delivering the motor vehicles for trade purpose; and

Note 23: *The PRP includes the retail prices of the motor vehicle, optional accessories (e.g. audio equipment and anti-theft device) and warranties.*

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- (b) a registered distributor is required to publish the retail price of motor vehicles (i.e. the PRP) before offering them for sale for use in Hong Kong. In this connection, he is required to submit the proposed PRP list of a motor vehicle to the C&ED for assessment and approval not less than seven days before its publication. The taxable value of a motor vehicle is calculated based on the approved PRP.

4.4 The C&ED uses a computerised FRT system for processing trader registration and assessing the provisional taxable values of motor vehicles. Traders can submit import returns, proposed PRPs and requests for assessment of provisional taxable value electronically through the system. The FRT system also allows the public to have access to the approved retail prices of vehicles via the Internet. To promote public awareness of the obligations of vehicle buyers and sellers under the Motor Vehicles (First Registration Tax) Ordinance, the C&ED has produced an Announcement of Public Interest for broadcast on television and radio, and also developed a free mobile application “HK Car Tax” for the public to check the valid PRP lists of motor vehicles.

4.5 ***Processing of import returns.*** A registered importer is required to provide vehicle details (e.g. vehicle model and landed value — Note 24) and supporting documents (e.g. the vehicle registration document issued by the exporting country and invoice(s) from the manufacturer or the supplier) for his import return. Besides document check, the C&ED may conduct an inspection of the vehicle to check against the declared details (e.g. the vehicle model and accessories) in an import return. The C&ED is assisted by the FRT system in detecting any delay in submission of import returns. An importer is liable on conviction to a fine of \$500,000 and imprisonment of 12 months for providing false/inaccurate information in an import return or late submission of the return.

4.6 The requirement of filing an import return also applies to persons who import motor vehicles for personal use. In such case where there is no approved PRP, the provisional taxable value is assessed based on the declared value (including the cost, insurance and freight charges) of the motor vehicle or the C&ED’s assessed value if the declared value does not reflect the market value.

Note 24: *The landed value shall include the cost of purchase, insurance and freight charges in the original currency, and shall include any other costs incidental to the purchase and importation of the motor vehicle (e.g. inland freight charges).*

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4.7 ***Processing of PRP.*** Under the law, if the C&ED is of the opinion that the proposed PRP submitted by the registered distributor does not reflect the market value of the motor vehicle, it may reject the proposed PRP and assess a PRP based on the market value of the motor vehicle. The market value is established by reference to previously endorsed PRP records (for motor vehicles of the same model and make) and the latest market information through market research. If the assessed PRP is disagreed, a registered distributor may submit a written representation to the C&ED with reasons. The C&ED will carry out a reassessment of the PRP and respond within 14 days upon receipt of the representation.

4.8 A registered distributor commits an offence if he sells a motor vehicle at a price higher than the approved PRP, without obtaining the C&ED's prior consent. Given that the value of a motor vehicle may be adjusted in response to the changing market environment and any addition of accessories, the law allows a registered distributor to notify the C&ED not less than five working days before an intended change in the PRP of a motor vehicle. In case of a price reduction notification, reasons for the reduction should be given to support the C&ED's assessment.

4.9 ***Assessment of provisional taxable value.*** After having filed an import return and obtained an approved PRP, a registered distributor may apply for a notification of provisional taxable value to enable him to apply for first registration of the vehicle with the TD. The C&ED will assess the provisional taxable value of a motor vehicle based on the approved PRP. A registered distributor/owner who is aggrieved at the assessed provisional taxable value may request the C&ED to carry out a reassessment.

4.10 Table 11 below shows the C&ED's workload statistics on FRT from 2010 to 2014.

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Table 11

Major workload statistics on FRT (2010 to 2014)

Work	2010	2011	2012	2013	2014
(a) New trader applications processed	151	132	123	128	145
(b) Import returns processed	7,911	7,843	7,941	6,945	7,602
(c) Inspection and verification of imported vehicles for FRT purposes	452	471	478	1,206 (Note)	1,428
(d) PRP lists processed	22,121	20,991	18,080	14,554	17,142
(e) Assessment of provisional taxable value on imported vehicles completed	58,514	63,707	60,609	67,652	77,690
(f) Reassessment of provisional taxable value on imported vehicles completed	13,738	16,722	17,057	16,213	25,944

Source: C&ED records

Note: With an increase of 18 staff (comprising 12 time-limited civil service posts and six non-civil service contract staff) in 2013, the C&ED stepped up verification of information of imported vehicles and investigation of suspected offence cases.

Control over registered traders

4.11 The C&ED has adopted a risk-based approach in managing registered traders. More stringent procedures will be applied to a high-risk trader when processing his submissions and requests, as follows:

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- (a) in processing a high-risk trader's import return and PRP application, his vehicle will be selected for inspection. Intensive mode of inspection will be applied with focus on verifying the make, model code, distinctive features, and standard and additional optional accessories declared by him; and
- (b) a high-risk distributor may be disallowed to obtain automatic generation of the notification of provisional taxable value (see para. 1.14) through the FRT system. The C&ED has to conduct a vehicle inspection and verify the declared PRP before generation of the notification.

4.12 ***Failure to update risk status records.*** According to the C&ED, traders' records of serious offence are one of the factors for adjusting their risk status. However, Audit noted the following issues in maintaining records of traders' risk status:

- (a) as at April 2015, of the 45 traders who had contravened the statutory provision by selling vehicles higher than the approved PRPs (see para. 4.8) from 2011 to 2014, ten traders still had their risk status recorded as "Nil" in the FRT system; and
- (b) in addition, the risk status of six traders who were involved in four investigation cases had not been adjusted to "Medium" or "High" although the adjustment of risk status was endorsed by a Superintendent of the ODCA in charge of FRT matters in 2013 and 2014 (see Table 12).

Audit considers that the C&ED needs to tighten controls to ensure that the records of risk status of registered traders are kept up-to-date.

Table 12

**Risk status of six traders not yet updated
(April 2015)**

Case	Registered trader	Date of endorsement	Endorsed risk status	Risk status per the FRT system
A	1	20.8.2013	High	Nil
	2	20.8.2013	High	Medium
B	3	7.4.2014	High	Nil
	4	7.4.2014	High	Nil
C	5	31.3.2014	Medium	Nil
D	6	7.4.2014	Medium	Nil

Source: C&ED records

Control over reassessment cases

4.13 From time to time, registered distributors may for various reasons, submit requests for reassessment of the PRP of vehicles. The C&ED has laid down the following guidelines for its staff in processing reassessment cases:

- (a) requests for reduction in the assessed PRP may be acceded to after considering factors such as the market trend, vehicle's condition, vehicles which have been used for demonstration and/or test driven over a period of time, and outdated or phased-out model;
- (b) justification for granting reduction should be recorded in the FRT system; and
- (c) if the reduction granted exceeds 10% of the originally assessed PRP or equals to \$50,000 and above, the endorsement of the head of the ODCA (i.e. at Senior Superintendent level — see para. 1.17) is required.

Supervisory endorsement for granting reduction in PRP not always obtained for multiple reassessments cases

4.14 In 2014, the C&ED processed 605 requests for PRP reassessment. Audit analysed the C&ED's database and found nine cases of downward adjustments exceeding \$50,000 or 10% of the originally assessed PRPs after multiple reassessments (involving 20 (3%) of the 605 requests). In five (56%) of these nine cases, the supervisory endorsement for downward adjustment of PRP was not obtained (see para. 4.13(c)). Audit considers that the C&ED needs to take measures to ensure that the stipulated supervisory endorsement for downward adjustment of PRP is always obtained in cases with multiple reassessment requests.

Granting reduction in provisional taxable values of vehicles imported for personal use without Senior Superintendent's endorsement

4.15 In contrast to the procedures for PRP reassessment cases where Senior Superintendent's endorsement is required for downward adjustment of PRP exceeding 10% of the original assessment or equal to \$50,000 and above (see para. 4.13(c)), those for the reassessments of provisional taxable values of vehicles imported for personal use do not involve the Senior Superintendent. For such reassessment cases, granting reduction in provisional taxable values is handled by a Senior Inspector and endorsed by a Superintendent irrespective of the amount of reduction.

4.16 From January 2012 to April 2015, the C&ED carried out 115 reassessments for 99 vehicles imported for personal use. Audit examined 44 of these reassessments for 30 vehicles and found that the downward adjustments in taxable values totalled \$5 million, representing 20% of the taxable value of \$25 million before the reassessments. Of the 30 vehicles, 17 (57%) were each granted reduction in taxable value over \$100,000 (ranging from \$101,001 to \$539,430). Another ten vehicles (33%) were each granted reduction exceeding \$50,000 or 10% of the original taxable value (i.e. the stipulated limit for Senior Superintendent's endorsement of PRP reassessment cases). To ensure adequate checks and balances, there is a need to lay down requirements on Senior Superintendent's endorsement for granting reduction in provisional taxable values of vehicles imported for personal use similar to the PRP reassessment cases.

Enforcement against contravention cases

4.17 The C&ED has laid down guidelines for its staff in handling cases of breach of the Motor Vehicles (First Registration Tax) Ordinance. For an offence of a minor or trivial nature (e.g. late submission of import return for vehicle imported for personal use), a warning letter may be issued in lieu of prosecution if the following criteria are met:

- (a) the violation does not involve evasion of FRT;
- (b) the offender has not been prosecuted for the same offence; and
- (c) the Department of Justice's advice has been obtained.

In other cases, prosecution action should be instigated. From 2010 to 2014, the C&ED issued 224 warning letters for minor offences. Table 13 shows the prosecution statistics for the five years.

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Table 13

Prosecution of contravention cases (2010 to 2014)

Offence	2010	2011	2012	2013	2014
	(Number of cases)				
Late import return	21	29	28	37	40
Selling higher than the approved PRP	—	5	32	8	6
False or inaccurate return	—	—	—	4	5
Failure to submit PRP 7 days before publication	—	—	2	3	1
Others (Note)	—	—	1	5	—
Total	21	34	63	57	52
Number of persons prosecuted	21	38	71	57	57
Total court penalty (\$'000)	56	330	6,587	1,473	1,049

Source: C&ED records

Note: Others included failing to keep records (one case each in 2012 and 2013), delivering motor vehicles to buyers before payments of the FRT (two cases in 2013) and failing to register as traders (two cases in 2013).

Difficulties in instituting prosecution within the statutorily specified period

4.18 Any prosecution of an offence under the Motor Vehicles (First Registration Tax) Ordinance shall be instituted within:

- (a) two years after the date on which the offence is committed; or

- (b) six months after the date on which the Commissioner for Transport first has knowledge that the offence has been committed, whichever is the earlier.

4.19 In a sample check of 30 completed investigation cases for the period from 2012 to 2014, Audit found that in five cases, the TD referred to the C&ED for investigation a total of 692 vehicles suspected to have been sold higher than the approved PRPs from March to November 2012. After screening the cases, the C&ED considered that investigations should be conducted for 681 vehicles. However, given the prosecution time bar (see para. 4.18(b)), the investigations focused on 529 (78%) vehicles, i.e. those with registration taken place on or after July 2012 (with the corresponding prosecution time limit ended in January 2013). In the event, the suspected offences in respect of 152 (22%) vehicles (with prosecution time limit ended earlier than January 2013) were not investigated.

4.20 In 2013, the C&ED reviewed the provisions of the Motor Vehicles (First Registration Tax) Ordinance in light of operational experience gained in administering FRT and taking enforcement actions. The C&ED considered that there was a need to amend various provisions of the Ordinance, including extending the time bar for taking prosecution action. Thereafter, the C&ED continued to monitor the effectiveness of the control regime and work on legislative proposals for enhancement. In July 2015, the C&ED informed Audit that the review on the proposed legislative amendments was still in progress. Audit considers that there is a need to introduce legislative amendments so that the C&ED can take enforcement actions effectively.

Audit recommendations

4.21 **Audit has *recommended* that the Commissioner of Customs and Excise should:**

- (a) **tighten controls to ensure that the records of risk status of registered traders are kept up-to-date;**
- (b) **take measures to ensure that the stipulated supervisory endorsement for downward adjustment of PRP is always obtained in cases with multiple reassessment requests;**

Administration and protection of first registration tax

- (c) **lay down requirements on Senior Superintendent's endorsement of downward adjustment of provisional taxable values in reassessment cases concerning vehicles imported for personal use similar to the PRP reassessment cases; and**
- (d) **in consultation with the Financial Services and the Treasury Bureau, the Department of Justice and the TD, work on legislative amendments to the Motor Vehicles (First Registration Tax) Ordinance to improve the control regime over FRT, including extension of the time bar for taking prosecution actions.**

Response from the Government

4.22 The Commissioner of Customs and Excise agrees with the audit recommendations. He has said that the C&ED:

- (a) completed a full-scale updating of traders' risk status on 28 August 2015 and has put in place a supervisory monitoring mechanism to ensure timely updating of the records;
- (b) will review the procedures and incorporate into the guidelines the requirement for Senior Superintendent's endorsement of downward adjustment of provisional taxable values in reassessment cases concerning vehicles imported for personal use similar to the PRP reassessment cases; and
- (c) will continue to work on the legislative proposals for enhancing the FRT control regime in consultation with the Financial Services and the Treasury Bureau and other relevant bureaux and departments.

4.23 The Secretary for Financial Services and the Treasury supports the need to amend the Motor Vehicles (First Registration Tax) Ordinance to further enhance the effectiveness of the FRT regime for the purpose of protecting the government revenue and consumers' interest.

**Duty rates on dutiable commodities
(September 2015)**

Type of DC	Rate
<p>1. Liquor Liquor with an alcoholic strength of more than 30% by volume measured at a temperature of 20°C</p>	100% of value
<p>2. Tobacco</p> <p>(a) Cigarette</p> <p>(b) Cigar</p> <p>(c) Chinese prepared tobacco</p> <p>(d) All other manufactured tobacco except tobacco intended for the manufacture of cigarette</p>	<p>(\$ per 1,000 sticks) 1,906</p> <p>(\$ per kilogram) 2,455 468 2,309</p>
<p>3. Hydrocarbon oil</p> <p>(a) Aircraft spirit</p> <p>(b) Motor spirit (leaded petrol)</p> <p>(c) Motor spirit (unleaded petrol)</p> <p>(d) Light diesel oil (except Euro V diesel)</p>	<p>(\$ per litre) 6.51 6.82 6.06 2.89</p>
<p>4. Methyl alcohol</p> <p>(a) Methyl alcohol and any admixture containing methyl alcohol measured at a temperature of 20°C</p> <p>(b) In addition, for every 1% by which the alcoholic strength by volume exceeds 30%</p>	<p>(\$ per hectolitre) 840 28.1</p>

Source: C&ED records

**First registration tax rates on different classes of motor vehicles
(September 2015)**

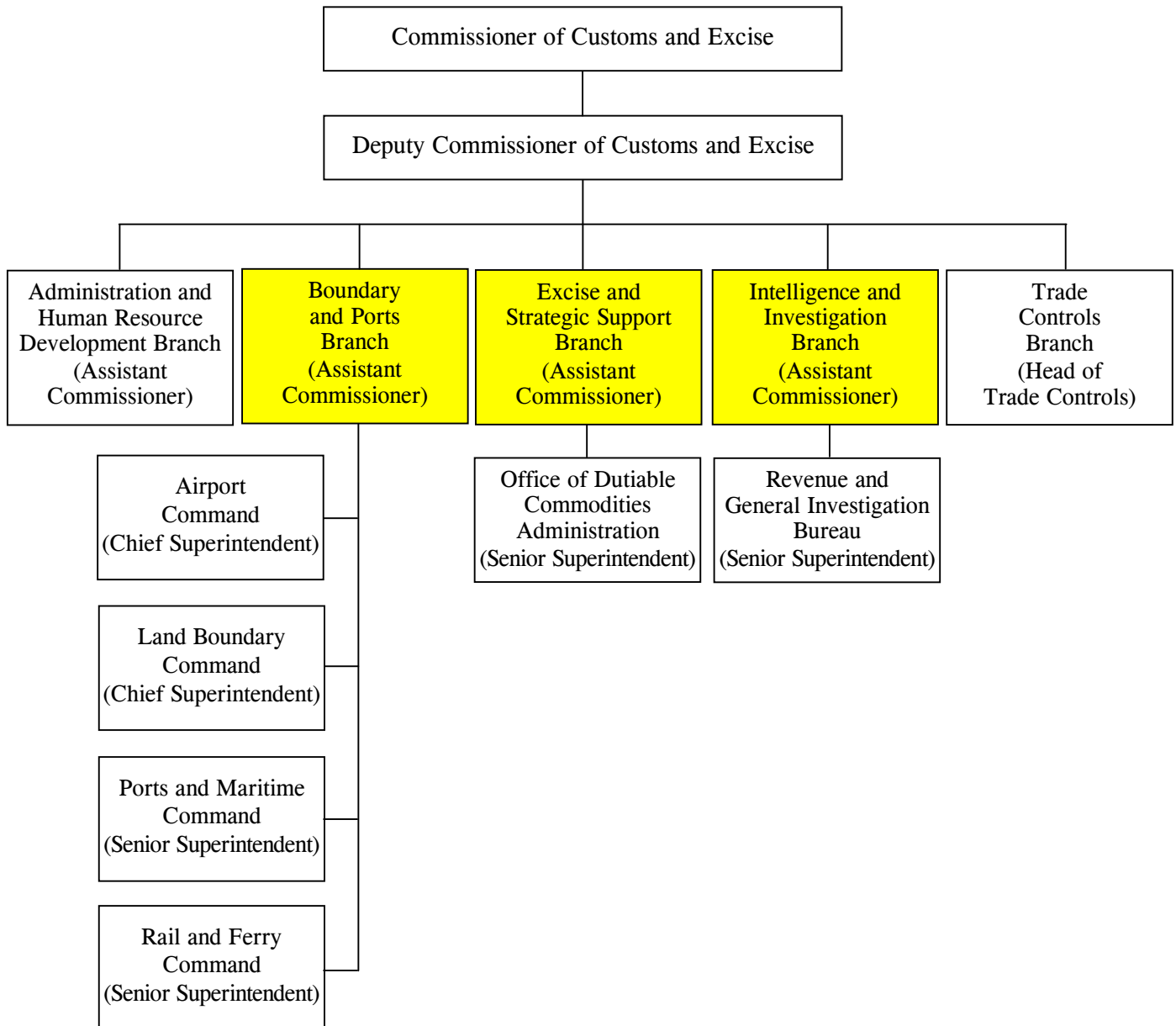
Class of motor vehicle	Tax rate on taxable value (Note)
Private car	
(a) on the first \$150,000	40%
(b) on the next \$150,000	75%
(c) on the next \$200,000	100%
(d) on the remainder	115%
Motor cycle and motor tricycle	35%
Goods vehicle	
(a) Goods vehicle, other than van-type light goods vehicle	15%
(b) Van-type light goods vehicle not exceeding 1.9 tonnes permitted gross vehicle weight:	
(i) on the first \$150,000	35%
(ii) on the next \$150,000	65%
(iii) on the remainder	85%
(c) Van-type light goods vehicle exceeding 1.9 tonnes permitted gross vehicle weight	17%
Taxi, light bus, bus and special purpose vehicle	3.7%

Source: C&ED records

Note: The taxable value of a vehicle is calculated on the basis of the PRP of the vehicle or the provisional taxable value assessed by the C&ED.

Remarks: According to the Motor Vehicles (First Registration Tax) Ordinance, motor vehicles propelled solely by electric power are exempted from FRT up to 31 March 2017 (or such later date as the Legislative Council may determine). There are also FRT concessions for other types of environment-friendly commercial vehicles (e.g. goods vehicles, taxis, light buses, buses) complying with the qualifying standard.

**Customs and Excise Department:
Organisation chart (extract)
(31 March 2015)**



Source: C&ED records

Red and Green Channel System for passengers' customs clearance at all entry points

Features of the Red and Green Channel System are as follows:

Red Channel



- (a) Passengers should proceed to this channel upon their arrival and make a declaration to the Customs officers if they have:
- any DCs not entitled to or exceeding their exempted quantities; and/or
 - any prohibited/controlled items.
- (b) These passengers are liable to:
- duty payment or confiscation of the DCs which are not entitled to or in excess of the exempted quantities; and/or
 - prosecution and confiscation of the prohibited/controlled items if they are unable to produce a valid licence or permit.

Green Channel



- (a) Passengers should enter this channel upon their arrival if they:
- do not have any DCs or prohibited/controlled items; or
 - have DCs in compliance with the exempted quantities.
- (b) These passengers are liable to:
- prosecution/penalty if they are found having undeclared/incompletely declared DCs; and
 - prosecution and confiscation of the prohibited/controlled items if they are found having any of them without a valid licence/permit.
- (c) These passengers are not exempted from any customs examination when using the Green Channel.

Source: C&ED records

Acronyms and abbreviations

Audit	Audit Commission
BPB	Boundary and Ports Branch
CAPS	Case Processing System
CCS	Customs Control System
C&ED	Customs and Excise Department
DCs	Dutiable commodities
e-DCP	Electronic Dutiable Commodities Permits
FRT	First registration tax
ICAC	Independent Commission Against Corruption
ITFS	Intermodal Trans-shipment Facilitation Scheme
m ²	Square metres
OBS	Open Bond System
ODCA	Office of Dutiable Commodities Administration
PRP	Published retail price
RGIB	Revenue and General Investigation Bureau
ROCARS	Road Cargo System
TD	Transport Department

CHAPTER 8

Highways Department

Management of the public lighting system

**Audit Commission
Hong Kong
27 October 2015**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 65 of the Director of Audit contains 10 Chapters which are available on our website at <http://www.aud.gov.hk>

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MANAGEMENT OF THE PUBLIC LIGHTING SYSTEM

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MANAGEMENT OF THE PUBLIC LIGHTING SYSTEM

Executive Summary

1. The Lighting Division of the Highways Department (HyD) with an establishment of 98 staff is responsible for the design standards, operation and maintenance, and the majority of design and construction of the public lighting system. As at April 2015, the public lighting system comprised 145,823 road lights (e.g. installed along public roads and carriageways), 79,225 special lights (e.g. installed at footbridges and subways) and 10,820 traffic bollards. The annual electricity charge was \$140 million. The HyD had awarded three contracts with a total contract value of \$693 million for the management, installation, operation and maintenance of road lights and traffic bollards (MOM contracts), each for a term of four years. For the provision of comprehensive maintenance for special lighting installations, the HyD has entered into a Service Level Agreement (SLA) with the Electrical and Mechanical Services Trading Fund (EMSTF) of the Electrical and Mechanical Services Department. In 2014-15, the HyD paid SLA charges totalling \$49 million to the EMSTF.

Operation and maintenance of road lighting

2. *Need to improve the scope and approach used in monitoring contractors' performance and road lighting availability.* To ensure a high service level of road lighting, the contractors of the MOM contracts are required to maintain the monthly availability of the road lighting system in the designated contract areas at not lower than 99.5%. Besides the contractors' daily check on the road lighting system, the HyD carries out night inspections to monitor independently the road lighting availability and the contractors' performance. According to the HyD, the stipulated lighting availability of 99.5% had been met in the three MOM contracts in 2014. However, the Audit Commission (Audit) found that the HyD's 51 inspection routes only covered 93,391 (64%) of the total 145,823 road lighting points. There is a risk that any outage or substandard performance of the contractors in relation to the uninspected lighting points may not be detected.

Executive Summary

Moreover, Audit's sample check revealed that the HyD's laid-down requirement for all 51 designated inspection routes to be covered at least once a month was not always followed. In June 2015, 4 out of 27 routes in one region were not inspected but another 17 routes were inspected twice. In 2008, the HyD put into trial use a remote control system to monitor road light operation. While the HyD's review of 2009 showed that the system was effective in reducing complaints, electricity consumption and monitoring manpower, the review of 2014 found it not cost-effective to further extend its use. In light of recent development (such as new technological advances), the HyD needs to re-examine the cost-effectiveness of extending the use of the system (paras. 2.2 to 2.7, 2.9 and 2.11 to 2.13).

3. *Need to ensure compliance with time limits for responding to fault calls.*
From June 2014 to May 2015, 12,249 fault calls concerning road lighting, gantry sign and roadside directional sign lighting, and traffic bollards were received. The MOM contracts have specified time limits for responding to fault calls, including rectifying urgent faults within 3 hours for minor repairs and within 12 hours for all other urgent fault cases. The contractors reported that they met the fault rectification time limits for 98.8% of the calls. However, there is no definition of minor repairs in the contracts. Audit's sample check revealed that a contractor mainly used the within 3-hour fault rectification time limit for measuring compliance while the other two contractors always used the within 12-hour time limit. In addition, a contractor measured its response time to fault calls based on the time of its acknowledgement of a fault call instead of the time a fault call was received as laid down in the contract. As a result, non-compliance for 576 cases had not been reported from June 2014 to May 2015 (paras. 2.16, 2.18 and 2.19).

4. *Need to ensure compliance with stipulated maintenance frequencies.*
The contractors are paid a monthly lump-sum fee to carry out scheduled maintenance works according to the frequencies stipulated in the MOM contracts (e.g. annual inspection of lighting equipment). However, as at April 2015, 14 types of scheduled maintenance works had not been carried out in accordance with the stipulated maintenance frequencies. In particular, some works had been outstanding for more than four years but payments for the works had already been made as part of the monthly lump-sum fees (paras. 2.27, 2.30 and 2.32).

Executive Summary

Operation and maintenance of special lighting

5. *Need to reflect SLA requirements in general special lighting subcontract.* The EMSTF has subcontracted the maintenance of 74% special lighting installations (including 62% relating to footbridge and subway lighting under a general special lighting subcontract). However, the 99.5% monthly equipment availability requirement stipulated in the SLA had not been incorporated in the general special lighting subcontract to ensure its enforceability on the subcontractor. Moreover, the subcontract had not always reflected the revised requirements of a new SLA, such as the 98.5% compliance level for fault call attendance requirement of the 2013 SLA and the reduced patrol frequency of the 2015 SLA (paras. 3.2, 3.5, 3.11 and 3.15).

6. *Need to closely monitor achievement of target equipment availability.* Before June 2015, the EMSTF calculated the monthly equipment availability of the special lighting system based on the number of faulty lights under complaint, which might not fully reflect the overall lighting operation. In response to Audit's enquiry, the EMSTF has since June 2015 used the number of faulty lights found during regular patrols for calculating the equipment availability. Based on the revised methodology, the monthly equipment availability figures for 2014-15 were below the SLA requirement of 99.5%, ranging from 98.7% to 99.4% (paras. 3.6 to 3.8).

7. *Need to improve regular patrol service.* According to the SLA, the regular patrol service on special lighting points should cover those listed in the SLA and subsequent additions during the agreement period. However, a total of 22 footbridges/subways/walkways (involving 1,887 special lighting points) were found by Audit to have been omitted from the patrol service. Moreover, in the absence of a laid-down time limit on rectifying faults identified during regular patrols, there were cases of delay. For example, as at June 2015, 325 general special lights had been repeatedly reported to be faulty, and the rectification works of some of these lights had been outstanding for more than two years. Delays in rectifying faulty lights could increase safety risks to pedestrians and other road users (paras. 3.9, 3.17 and 3.18).

Executive Summary

8. *Need to carry out scheduled maintenance works according to stipulated frequencies.* Under the SLA, the EMSTF has to arrange periodic cleaning of lanterns and group replacement of lamps, ranging from once every six months to once every 36 months. During the period from April 2013 to March 2015, some of these maintenance works were not carried out in accordance with the stipulated frequencies (paras. 3.19 and 3.20).

Installation of public lights

9. *Need to monitor long outstanding installation works for road lights.* Lighting installation works are mainly carried out under the Public Lighting Programme (PLP) approved by an inter-departmental Public Lighting Vetting Committee (PLVC) annually. The HyD had not compiled any ageing analysis to monitor the progress of road light installation works. As at March 2015, of the 1,534 approved road lights pending installation, 71 (5%) had been outstanding for more than three years and another 649 (42%) lights for one to three years. In September 2015, the HyD informed Audit that actions had been taken in respect of the 71 road lights. The HyD still needs to expedite action on the 649 outstanding lights (paras. 4.2 to 4.5).

10. *Need to expedite action on installation of village lights.* Having regard to the manpower resources and available funding, the HyD sets an annual quota for the number of village lights to be installed under the PLP. The Home Affairs Department (HAD) is responsible for coordinating village lighting applications and carrying out liaison work. During 2005-06 to 2015-16, the annual quotas of village lighting installation varying from 400 to 2,000 were insufficient to meet the village lighting applications. As at June 2015, the backlog of waitlisted village lights for inclusion in the PLP was 2,693. From 2005-06 to 2015-16, the PLVC approved the installation of 9,075 village lights, of which 1,461 approved village lights were pending installation as at October 2015. In particular, 553 (38%) had been outstanding for more than three years. Audit examination revealed that there were cases of delays in arranging site meetings and taking follow-up actions by the HAD and the HyD (paras. 4.8 to 4.11 and 4.13 to 4.16).

Executive Summary

Implementation of energy saving measures

11. Over the years, the HyD has made efforts to reduce energy consumption of the public lighting system, e.g. using high pressure sodium lamps to attain an energy saving of about 30%. From 2010-11 to 2014-15, while the number of public lights increased by 6% from 223,300 to 235,600, the electricity consumption decreased by 3% from 136.3 million kilowatt-hours (kWh) to 132.6 million kWh. In January 2015, the Government set a new target of achieving a 5% saving in electricity consumption for government buildings. To support the Government's energy saving initiative, the HyD needs to step up its efforts to implement energy saving measures for the public lighting system (paras. 5.2 and 5.4).

12. *Need to expedite action on installing electronic ballasts.* Non-dimmable electronic ballasts can be used to replace electromagnetic ballasts to reduce energy loss. In August 2008, the HyD issued an instruction requiring the replacement of failed electromagnetic ballasts on non-high-speed roads by non-dimmable electronic ballasts. However, Audit examination of 3,841 ballasts installed/replaced between 2009-10 and 2014-15 revealed that only 792 (21%) had complied with the laid-down requirement (paras. 5.5 and 5.6).

13. *Need to review the pace of adopting energy saving devices.* It is the HyD's practice to adopt energy saving devices (such as non-illuminated retro-reflective traffic bollards and T5 fluorescent tubes) for new installations and replacing failed or damaged devices. While this practice can avoid unnecessary disposal of existing devices, it takes a longer time to realise the benefits of the energy saving devices. For example, while the use of T5 fluorescent tubes to replace T8 fluorescent tubes could achieve an energy saving of 20% to 30%, only 18% of the T8 fluorescent tubes were replaced after a lapse of five years. The HyD needs to consider conducting a review of the cost-effectiveness of speeding up the use of energy saving devices in the public lighting system (paras. 5.9 and 5.10).

Audit recommendations

14. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has recommended that the Director of Highways should:**

Executive Summary

Operation and maintenance of road lighting

- (a) set adequate inspection routes for the night inspections of the MOM contract areas with a view to covering all the lighting points as far as possible (para. 2.14(a)(i));
- (b) review the cost-effectiveness of extending the use of the system for remote control of road light operation (para. 2.14(b));
- (c) clearly define the two time limits for completing different types of repair works for urgent faults (para. 2.25(a));
- (d) address the inadequacies in monitoring the contractors' performance in attending to fault calls (para. 2.25(e));
- (e) step up monitoring of the contractors' scheduled maintenance works and follow up outstanding maintenance works with contractors concerned for completed contracts (para. 2.37(a) and (c));

Installation of public lights

- (f) step up monitoring of the progress of road light installation works and expedite action on the outstanding road lights (para. 4.6);
- (g) take measures to meet the demand for village lighting in good time (para. 4.18(a));
- (h) in collaboration with the Director of Home Affairs, step up monitoring of the progress of the approved village lighting installation works (para. 4.18(c));

Implementation of energy saving measures

- (i) take measures to ensure that the requirement on replacing electromagnetic ballasts by non-dimmable electronic ones is complied with (para. 5.11(a)); and

Executive Summary

- (j) consider conducting a review of the cost-effectiveness of speeding up the use of energy saving devices (para. 5.11(c)).
15. Audit has also *recommended* that the Director of Electrical and Mechanical Services should:

Operation and maintenance of special lighting

- (a) incorporate the target equipment availability requirement and fault attendance service standard of the SLA in the general special lighting subcontract (para. 3.21(a));
- (b) closely monitor the achievement of the target equipment availability requirement (para. 3.21(b)(i));
- (c) incorporate the omitted footbridges/subways/walkways in the SLA/subcontract for providing the regular patrol service and speed up rectification of faulty lights found during regular patrols (para. 3.21(b)(ii) and 3.21(e));
- (d) tighten control to ensure that any revised service requirements of a new SLA are promptly reflected in the subcontracts (para. 3.21(b)(iii)); and
- (e) tighten control to ensure that scheduled maintenance works are carried out in accordance with the stipulated frequencies (para. 3.21(f)).

Response from the Government

16. The Government agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 Public lighting system is an auxiliary facility of the road network in Hong Kong. The authorities for the provision of public lighting and the protection of associated appliances are vested in the Director of Highways under the Public Lighting Ordinance (Cap. 105). As at April 2015, the public lighting system comprised 235,868 public lights, as follows:

- (a) ***Road lighting.*** It included conventional column lights, wall lights and soffit lights installed along public roads, carriageways, cycle tracks and village accesses. There were 145,823 road lights;
- (b) ***Special lighting.*** It included footbridge lighting, subway lighting, ferry concourse/walkway lighting, tram shelter lighting, high mast lighting, high bay lighting at public transport interchanges, underpass lighting and noise enclosure lighting. There were 79,225 special lights; and
- (c) ***Traffic bollards.*** There were 10,820 traffic bollards installed at road junctions and refuge islands. They are used to provide a visual cue to approaching drivers ahead of a road junction or a refuge island. Most of the traffic bollards are illuminated by their internal light sources for their bodies to be seen conspicuously at night time.

Photographs 1(a) to (h) show some public lighting features referred to in this report.

Introduction

Photographs 1(a) to (h)

Some public lighting features

(a) Road lights along a carriageway



(b) A roadside public lighting control cubicle



(c) An illuminated traffic bollard (ITB) at a refuge island



(d) A cable drawpit



Photographs 1(a) to (h) (Cont'd)

(e) High mast lighting



(f) High bay lights at a public transport interchange



(g) Gantry sign lighting



(h) Roadside directional sign lighting



Source: HyD records

Introduction

1.3 *Operation of public lighting system.* The switching on/off of road lighting is controlled by photo-electric controllers installed in roadside public lighting control cubicles. Road lighting and traffic bollards will be automatically switched on when the ambient brightness falls to 55 lux (Note 1) and switched off when it rises to 83 lux. Under normal weather conditions, road lighting operates around 8 minutes after sunset to around 15 minutes before sunrise. Special lighting for subways and underpasses however operates nonstop around the clock.

1.4 The Lighting Division of the Highways Department (HyD) is responsible for the design standards, operation and maintenance, as well as the majority of design and construction of the public lighting system to provide the community with reliable, safe, comfortable and environmentally friendly public lighting. Under the supervision of the Assistant Director/Technical of the HyD and headed by a Chief Engineer, the Lighting Division had an establishment of 98 staff working in four Sections (see Appendix A for an organisation chart). In 2014-15, the expenditure of the HyD on the maintenance of the public lighting system was \$124 million (excluding staff cost) and the electricity charge was \$140 million.

Provision of public lighting

1.5 *Design standards for public lighting system.* The design of the public lighting system in Hong Kong is based on the Public Lighting Design Manual published by the HyD, with the illumination levels selected according to various factors, such as function, traffic volume, pedestrian volume and ambient brightness of the roads. The design standards stipulated in the Manual are developed according to the most common international road lighting standard widely adopted in various European and Asian countries. The current Manual was published in 2006. According to the HyD, a new version of the Manual will be issued in 2016.

Note 1: *Lux is an international illumination unit. The illumination level of road lighting is generally about 10-30 lux.*

1.6 ***Lighting installation works under Public Lighting Programme.*** Lighting installation works are mainly carried out under the Public Lighting Programme (PLP). The PLP covers different lighting initiatives, such as road lighting schemes under government projects, new installations or improvements on existing roads and lighting installations for villages (Note 2). Each year, the Lighting Division invites works departments and related government departments to submit public lighting proposals or requirements for the following financial year. Justified proposals, together with other proposals initiated by the Lighting Division, are included in a proposed PLP for submission to the Public Lighting Vetting Committee (PLVC — Note 3) for approval. The total estimated cost of works in the PLP for 2015-16 is \$66.57 million (of which \$29.73 million for government projects is funded under relevant capital works projects, \$35.75 million for other lighting initiatives is funded under a non-recurrent expenditure subhead (Note 4) of the Capital Works Reserve Fund and \$1.09 million for private projects is funded by the private sector). Apart from the PLP, lighting installation works may also be carried out to meet urgent needs (e.g. additional lighting arising from complaints) upon approval by senior officers of the HyD (Note 5).

Note 2: *Provision and maintenance of lighting in public housing estates under the purview of the Hong Kong Housing Authority is not covered in this audit review.*

Note 3: *The Committee is chaired by the Assistant Director/Technical of the HyD and comprises representatives from the Home Affairs Department and the Hong Kong Police Force.*

Note 4: *The expenditure subhead covers highways, railways and railways development, bridges, subways, footways, street lighting as well as feasibility studies and site investigations in respect of highway projects. For 2015-16, the approved allocation under the purview of the Director of Highways is \$680 million.*

Note 5: *The Chief Engineer of the Lighting Division and the directorate officers of the HyD at D3 level or above may approve individual public lighting works items up to \$5 million and \$10 million respectively.*

Operation and maintenance of road lighting

1.7 **Management-operation-maintenance contracts (MOM contracts).** As at April 2015, the HyD had awarded three contracts for the management, installation, operation and maintenance of road lighting and traffic bollards (hereinafter collectively referred to as road lighting) with a total contract value of \$693 million. Each MOM contract is for a term of four years and covers different areas of Hong Kong (Note 6). The scope of work of the MOM contracts includes the following:

- (a) **Design.** The contractor shall carry out detailed design for the installation and maintenance of the road lighting system;
- (b) **Installation.** This includes planning, investigation, storage, removal, disposal, supply, installation, testing and commissioning of the road lighting system;
- (c) **Operation.** This includes routine inspection, patrolling, night scouting to ensure the availability of road lighting and attendance in response to fault calls; and
- (d) **Maintenance.** This includes scheduled maintenance works (e.g. regular cleaning of lanterns and group replacement of lamps), specified unscheduled maintenance works (e.g. fault finding and repair) and other as-required maintenance works (e.g. replacement of damaged lighting columns due to traffic accidents).

1.8 Under the MOM contracts, the contractors are paid for the design, operation, and scheduled and specified unscheduled maintenance works on a monthly lump-sum basis in accordance with a schedule of fees, subject to payment deductions in case of non-compliance with the performance requirements. They are required to maintain the monthly availability of the road lighting system at the contract specified level of not lower than 99.5%. New installation works, improvements and other as-required maintenance works are ordered by the HyD through the issue of works orders and are paid on a re-measurement basis.

Note 6: *As at April 2015, the MOM contracts for New Territories West region, Hong Kong Island and Lamma Island region, and Kowloon and New Territories East region would expire in September 2015, September 2017 and September 2018 respectively.*

1.9 The Lighting Division conducts field inspections to monitor the contractors' performance in various aspects. The contractors' performance is assessed quarterly in accordance with the procedures specified in the Contractor Management Handbook.

Operation and maintenance of special lighting

1.10 For the provision of comprehensive maintenance services for special lighting installations, the HyD has entered into a Service Level Agreement (SLA) with the Electrical and Mechanical Services Trading Fund (EMSTF — Note 7) of the Electrical and Mechanical Services Department (EMSD). The scope of work under the SLA covers the following:

- (a) ***General special lighting maintenance.*** Preventive maintenance, corrective maintenance, fault attendance and replies to public complaints for general special lighting installations (Note 8) are undertaken by an outsourced contractor. Besides providing professional advice, the EMSTF arranges and manages the outsourced services;
- (b) ***Other special lighting maintenance.*** The EMSTF provides comprehensive maintenance services, such as patrolling, fault attendance, preventive maintenance and corrective maintenance for other special lighting installations (Note 9);
- (c) ***Provision of contract management and supervisory service.*** The EMSTF provides the service to the lighting installations specified in the SLA through a dedicated team (Note 10); and

Note 7: *The EMSTF is the trading arm of the EMSD which provides electrical and mechanical services to government departments.*

Note 8: *These include footbridge, subway, ferry concourse/walkway lighting and tram shelter lighting. There were 49,109 such special lights.*

Note 9: *These include underpass, noise enclosure, high mast and high bay lighting. There were 30,116 such special lights.*

Note 10: *The dedicated team, comprising lighting specialists and technicians, provides professional advice on lighting matters, initiates proposals to improve existing public lighting, provides design inputs for lighting projects, handles public complaints and monitors maintenance contractors/agents.*

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- (d) *Group lamp replacement.* The EMSTF is responsible for group replacement of lamps on all special lighting.

Again, the EMSTF is required to maintain the monthly availability of the special lighting system at the SLA specified level of not lower than 99.5%.

1.11 In 2014-15, the HyD paid SLA charges (Note 11) totalling \$49 million to the EMSTF. According to the HyD, the SLA services are monitored through monthly performance reports submitted by the EMSTF. If there are any identified deficiencies in performance, the HyD will raise the issues at monthly meetings with the EMSTF. In May 2015, the SLA was renewed for another service period of four years up to March 2019.

Energy saving measures

1.12 At present, high pressure sodium lamps are adopted in the road lighting system. According to the HyD, these lamps have attained an energy saving of about 30% as compared to the electricity consumption of road lighting equipment used in the past. To enhance energy saving in public lighting, the HyD has conducted trials on using new energy-efficient road lighting products, e.g. Ceramic Discharge Metal Halide (CDM) lamps and Light Emitting Diode (LED) lamps.

Audit review

1.13 In May 2015, the Audit Commission (Audit) commenced a review of the management of public lighting system with a view to identifying room for improvement. The review has focused on the following areas:

- (a) operation and maintenance of road lighting (PART 2);
- (b) operation and maintenance of special lighting (PART 3);

Note 11: *The SLA charges included contract payment for the outsourced general special lighting maintenance services mentioned in paragraph 1.10(a) plus 16% thereof being contract management fees and fixed fees for the EMSTF's services mentioned in paragraph 1.10(b) to (d).*

- (c) installation of public lights (PART 4); and
- (d) implementation of energy saving measures (PART 5).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

Acknowledgement

1.14 Audit would like to acknowledge with gratitude the full cooperation of the staff of the HyD, the EMSD and the Home Affairs Department (HAD) during the course of the audit review.

PART 2: OPERATION AND MAINTENANCE OF ROAD LIGHTING

2.1 This PART examines the following issues relating to the operation and maintenance of road lighting under the MOM contracts:

- (a) availability of the road lighting system (paras. 2.2 to 2.15);
- (b) attendance to fault calls (paras. 2.16 to 2.26);
- (c) management of maintenance works (paras. 2.27 to 2.38); and
- (d) management of the Public Lighting Information System (PLIS) (paras. 2.39 to 2.47).

Availability of the road lighting system

2.2 Three MOM contracts with a total value of \$693 million were awarded to contractors for a term of four years. To ensure a high service level of road lighting, the HyD has laid down the following operational requirements in the MOM contracts:

- (a) the contractors shall ensure that the monthly availability of the road lighting system in the designated contract areas is maintained at not lower than 99.5%. Deductions will be made from the monthly lump-sum payment if the monthly availability is lower than that level; and
- (b) the contractors shall carry out night scouting daily to achieve a 100% check on the road lighting system within the designated contract areas on a weekly basis (except village lighting inaccessible by vehicles for safety reasons). The night scouting routes shall be pre-approved by the HyD. All lamp failures shall be reported to the HyD and repair works shall be completed within two days upon identification. Monthly reports on the scouting work planned and carried out shall be submitted to the HyD.

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2.3 For the purpose of establishing the monthly availability of the road lighting system, the MOM contracts also provide that:

- (a) the HyD should carry out night inspections from time to time to determine the number of lighting points that are not properly and continuously lit. The level of outages shall exclude those caused by third party works/damage, power supply faults of the power companies and natural disasters; and
- (b) the monthly availability shall be calculated as follows:

$$100\% - \frac{100 \times (\text{total outages found by the HyD} - \text{excluded outages})}{\text{Total number of lighting points inspected by the HyD}} \%$$

Monitoring the availability of road lighting system

2.4 ***HyD's night inspection.*** The purpose of the HyD's inspection is to monitor independently the availability of the road lighting system and the MOM contractors' performance. The HyD has issued the following instructions for its staff on night inspection arrangements:

- (a) ***Inspection route planning.*** The scope of night inspections shall cover all lighting points that can be inspected by driving along vehicular routes. The inspection routes shall be designed to such an extent that the designated contract areas can be covered as much as possible and the inspection can be completed within the inspection time. In the first quarter of each year, an annual review of the inspection routes shall be carried out to cater for any new roads developed; and

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- (b) *Night inspection arrangements.* Night inspections shall be carried out by staff undertaking night-shift duties from Monday to Friday except public holidays. The routes to be inspected each night should be randomly selected (Note 12) by a designated officer (at the rank of engineer or above) using a computer programme such that the contractors would not know in advance of the routes to be inspected. Except under special circumstances which should be documented, all routes shall be inspected at least once a month.

2.5 According to the HyD's inspection reports, the stipulated monthly lighting availability of 99.5% had been met under the three MOM contracts in 2014. The availability ranged from 99.51% to 99.97%. However, Audit examination revealed room for improvement in monitoring the road lighting availability as detailed in paragraphs 2.6 to 2.13.

2.6 *Inadequate coverage of lighting points in inspection routes.* The HyD has set 51 vehicular routes for conducting night inspections since December 2013, i.e. 27 routes for the MOM contract of New Territories West region, 18 for Kowloon and New Territories East region, and 6 for Hong Kong Island and Lamma Island region. Audit found that as at April 2015, these 51 vehicular routes only covered 93,391 lighting points (i.e. 64% of the 145,823 lighting points within the three MOM contract areas — see Table 1 for details). There is a risk that any outage or substandard performance of the contractors in relation to the uninspected lighting points may not be detected.

Note 12: *The random selection of routes was based on the Independent Commission Against Corruption's recommendation in 2012.*

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Table 1

**Analysis of lighting point coverage of the HyD's inspection routes
(April 2015)**

Region	Number of lighting points		
	in the MOM contract area	covered by the HyD's inspection routes	not covered by the HyD's inspection routes
Hong Kong Island and Lamma Island	18,841 (100%)	15,399 (82%)	3,442 (18%)
Kowloon and New Territories East	56,215 (100%)	31,416 (56%)	24,799 (44%)
New Territories West	70,767 (100%)	46,576 (66%)	24,191 (34%)
Overall	145,823 (100%)	93,391 (Note) (64%)	52,432 (36%)

Source: Audit analysis of HyD records

Note: The HyD's inspection records showed that in 2014, on average, the 93,391 lighting points were each inspected 18.6 times.


2.7 Audit sample checked some lighting points outside the 51 inspection routes and found that they were in fact accessible by vehicles (see Figure 1). According to the HyD, amongst the 52,432 lights not covered by its inspection routes, 38,032 (73%) were village lights or rear-lane and pedestrian-way lights not accessible by vehicles, i.e. the remaining 14,400 (27%) were directly accessible by vehicles. In Audit's view, the HyD needs to set adequate inspection routes to cover all the lighting points within the contract areas as far as possible.


Figure 1


HyD's inspection route (extract)



Source: *Audit analysis of HyD records*

Remarks:  Roads accessible by vehicles but not covered by the HyD's inspection route

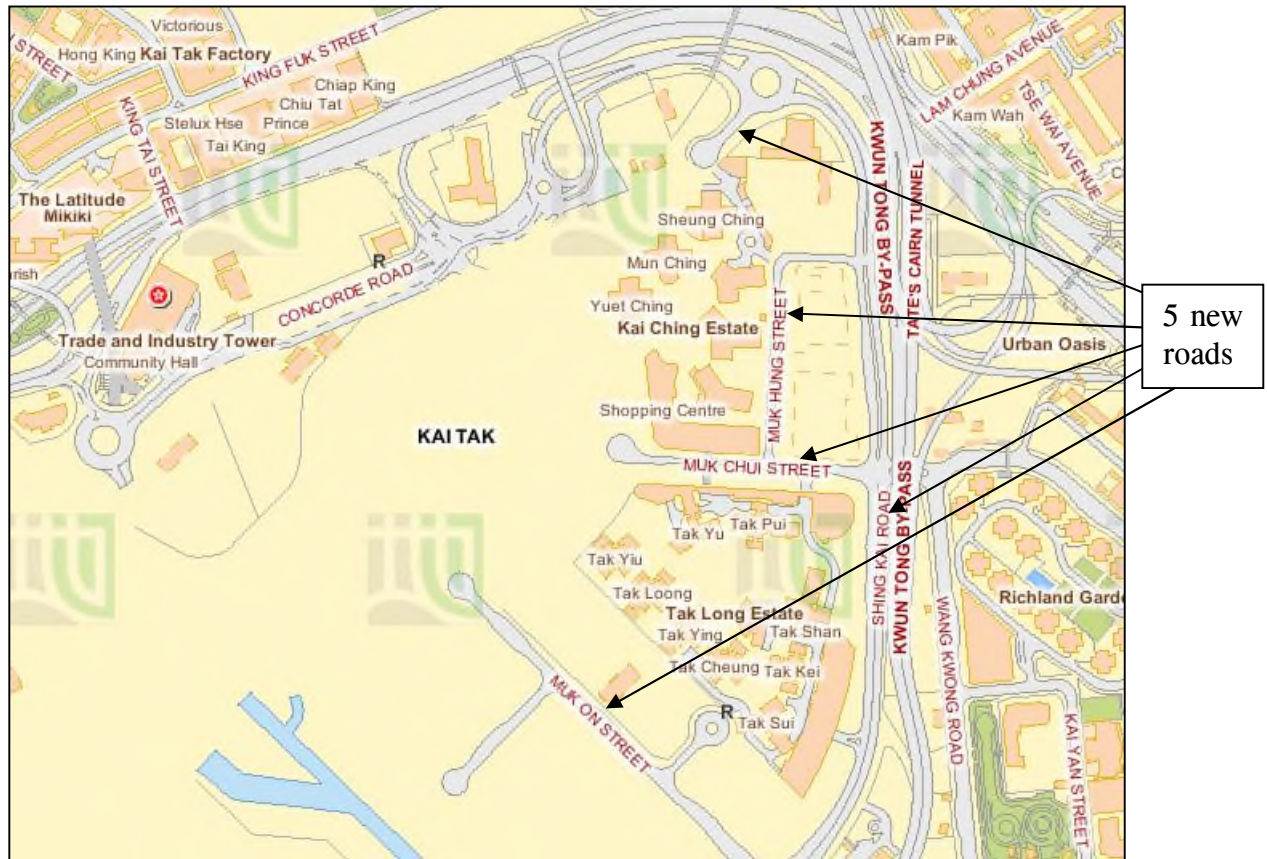
 HyD's inspection route

 Roads with lighting points not managed by the HyD (see Note 2 to para. 1.6)

2.8 ***New roads not included in inspection routes.*** According to the HyD's instructions for its staff, an annual review on the inspection routes shall be conducted in the first quarter of a year to cater for any new roads developed (see para. 2.4(a)). However, there was no record to show that such reviews had been conducted in 2014 and 2015. Audit found cases whereby lighting points installed on new roads were not covered in the inspection routes. For example, 241 lighting points installed on five new roads in Kai Tak area from November 2012 to December 2014 were not covered in the HyD's inspection routes (see Figure 2).

Figure 2

Lighting points on new roads not covered by HyD's inspection routes



Source: GeoInfo Map (www.map.gov.hk)

2.9 *Inadequate coverage of all routes in monthly inspections.* Audit examined the HyD's night inspection records for the period from July 2014 to June 2015 and found that the laid-down requirement for all designated routes to be inspected at least once a month (see para. 2.4(b)) was not always followed. The frequency of non-compliance was the highest for New Territories West region (ten out of 12 months — see details in Appendix B), followed by Hong Kong Island and Lamma Island region (two out of 12 months) and Kowloon and New Territories East region (one out of 12 months). Audit noted from a sample check that while 4 out of 27 routes in New Territories West region were not inspected in June 2015, another 17 routes were each inspected twice (the remaining 6 routes were each inspected once) in the same month. According to the HyD, the random nature of the route selection by a computer programme (see para. 2.4(b)) had led to the uneven coverage. Audit considers that the HyD needs to enhance the route selection

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computer programme to cater for both the randomness of selection and the laid-down requirement of all designated routes to be selected for inspections at least once a month.

Use of remote control system to monitor road lighting

2.10 While the HyD has used automatic devices such as photo-electric controllers and timers to control the switching on/off of road lighting, adjustment of the pre-set illumination level and time due to changing circumstances still requires manual operation. For example, the normal operation of photo-electric controllers may be affected by the blockage of sunlight due to high rise buildings or tampering. The timer has to be adjusted according to the seasonal variations in sunlight durations.

2.11 In 2008, the HyD put into trial use a Public Lighting Control and Monitoring System (PLCMS — Note 13) to remotely monitor and control the on/off conditions of about 6,300 road lights. In a review of 2009, the HyD found that the PLCMS was effective in reducing the number of complaints (by 25% in comparison with road lights not monitored by the system), electricity consumption (by 4%) and manpower for monitoring road lights and resetting the timer. Since then, the use of the PLCMS had been extended. As at April 2015, the PLCMS covered 16,667 (11%) of 145,823 road lights.

2.12 In another review of 2014, the HyD considered it not cost-effective to further extend the use of the PLCMS to all road lights notwithstanding the expected reduction in the number of complaints by 50%. The HyD estimated that the capital cost and annual recurrent cost for the full implementation would amount to \$30 million and \$24.2 million respectively while the savings in the contractors' patrol cost would only be \$4.2 million. Moreover, the effectiveness of the PLCMS in detecting the outages was limited to two or more road light bulbs connected by the same control cubicle (see Photograph 1(b) in para. 1.2) whereas annually over 60% of the outage cases only involved a single light bulb.

Note 13: *The system consists of local control units installed at the roadside public lighting control cubicles, which communicate via the cell phone network with the control centre such that the HyD's contractors can receive fault reports promptly for arranging repair works in a timely manner.*

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2.13 In reviewing the recent development in the PLCMS, Audit has found that the HyD needs to re-examine the cost-effectiveness of extending its use because:

- (a) in the 2014 review, the estimated annual recurrent cost of \$24.2 million was based on the monthly maintenance cost of \$0.25 million for 14,240 road lights controlled by 200 control units for the trial use of the PLCMS (see para. 2.11) under the previous MOM contract for Kowloon and New Territories East region. However, the monthly maintenance cost has been reduced by 89% from \$0.25 million to \$28,500 under the current MOM contract (Note 14);
- (b) the estimated capital cost of \$30 million was based on the installation of 3,840 new control units for about 140,000 road lights. According to the MOM contractor for Kowloon and New Territories East region, the design life of the existing 200 control units (mentioned in (a) above plus another 50 similar control units under the other two MOM contracts) is about 20 years and hence they can continue to be used without replacement;
- (c) the estimated savings only included the contractors' patrol cost while the savings in energy cost (see para. 2.11) and the HyD's inspection cost had not been taken into account; and
- (d) according to the technical proposal submitted by an MOM contractor, there is new technology in the market which enables the PLCMS to detect the fault of individual road lights.

Note 14: *The monthly maintenance costs of \$0.25 million and \$28,500 were estimated by the HyD in 2010 and 2014 respectively, and included in the tender documents for the MOM contract for Kowloon and New Territories East region. Tenderers were requested to indicate 'plus' or 'minus' percentages for the HyD's estimated costs which would become the tenderers' tender price.*

Audit recommendations

- 2.14 **Audit has recommended that the Director of Highways should:**
- (a) **improve the monitoring of road lighting availability by:**
 - (i) **setting adequate inspection routes for the night inspections of the MOM contract areas with a view to covering all the lighting points as far as possible;**
 - (ii) **tightening control over the annual review of inspection routes to ensure that new roads are duly included in the routes; and**
 - (iii) **enhancing the route selection computer programme to cater for both the randomness of selection and the laid-down requirement for all designated routes to be selected for inspections at least once a month; and**
 - (b) **review the cost-effectiveness of extending the use of the PLCMS, taking into account factors such as changes in maintenance costs and advancement in technology.**

Response from the Government

- 2.15 The Director of Highways agrees with the audit recommendations.

Attendance to fault calls

2.16 According to the operational requirements of the MOM contracts, the contractors shall set up 24-hour-operating call handling teams to receive fault calls referred by the 1823 Call Centre (Note 15). Upon receipt of fault calls, the

Note 15: *The 1823 Call Centre of the Efficiency Unit operates Hotline 1823 to provide a 24-hour one-stop service for handling public enquiries on behalf of 22 departments (including the HyD) and public complaints against the Government.*

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contractors are required to arrive on site and to resume the operation of the road lighting equipment within the time limits specified in the contracts (see Table 2). From June 2014 to May 2015, 12,249 fault calls concerning road lighting, gantry sign and roadside directional sign lighting (see Photographs 1(g) and (h) in para. 1.2) and traffic bollards were received.

Table 2

Time limits for responding to fault calls

Type of work	Time limit (from the time the fault call is received)
Response time (i.e. arrival time on site):	
Urgent fault call (Note)	Less than 2 hours
Other fault call including fault call of outlying islands, except remote areas to be approved by the HyD	Less than 12 hours
Time for fault rectification:	
Urgent fault repair involving minor adjustment or replacement of minor components	Less than 3 hours
Other urgent fault repair	Less than 12 hours
Non-urgent fault repair	Less than 24 hours

Source: HyD records

Note: Urgent fault calls include those with safety implications or seriously affecting the operation of nearby road lighting system, such as leakage of electricity, falling columns/damaged columns due to traffic accidents, missing/loosen doors of public lighting control cubicles, cables or road lighting system equipment on fire and consecutive or multiple failures of more than 10 lamps from the same incoming power supply point.

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2.17 After completion of fault rectification, the MOM contractors are required to provide a confirmation to the 1823 Call Centre (Note 16) within three calendar days. The contractors are paid for their attendance to fault calls on a lump-sum basis each month. Deductions will be made from the payments to the contractors if they fail to:

- (a) meet the specified fault rectification time limits (see Table 2 in para. 2.16); or
- (b) provide confirmations of fault rectification within three calendar days for 95% of the fault calls received in a month;

unless the failure is exempted by the HyD for reasons such as works on expressways or difficult locations, or irresolvable technical difficulties.

Time limits for rectifying faults not properly applied

2.18 At present, there are two time limits for rectifying urgent faults depending on the nature of repair required, i.e. less than 3 hours if the repair only involves minor adjustment or replacement of minor components and less than 12 hours for all other urgent fault cases. However, there is no definition of minor adjustment or replacement of minor components in the MOM contracts to differentiate them from other types of repair works. This could give rise to different interpretations which could be taken advantage of by a contractor to escape penalty for delays in completing fault rectification works.

2.19 From June 2014 to May 2015, the 1823 Call Centre referred a total of 12,249 fault calls (comprising 1,229 urgent calls and 11,020 non-urgent calls) to the three MOM contractors. According to the contractors' monthly reports of follow-up actions on these fault calls, the stipulated fault rectification time limits had been met for 12,102 (98.8%) fault calls. However, Audit examination of the case details attached to the monthly reports revealed the following issues:

Note 16: *Since November 2014, the HyD has required the contractors to submit the confirmation of fault rectification within 3 calendar days for its vetting before replying to the 1823 Call Centre within 7 working days.*

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- (a) while one contractor used within 3-hour fault rectification time limit for measuring compliance for over 98% of its 511 urgent fault call cases, the other two contractors used within 12-hour time limit for measuring all their urgent fault call cases (i.e. 58 and 660 respectively). Audit considers that the HyD needs to review the different time limits used for measuring urgent fault call cases by the three contractors to see if they are fully justified having regard to the nature of the repair works required; and
- (b) according to the MOM contracts, the time limit for fault rectification shall commence from the time a fault call is received (see para. 2.16). While two of the three MOM contractors adhered to these rules in measuring their compliance, the remaining one failed to do so. Instead, the contractor used the time of its acknowledgement of the 1823 Call Centre's referral as the commencement point of the time limit. As there was a time lag between the 1823 Call Centre's referral and the contractor's acknowledgement, a number of the reported compliant cases had in fact exceeded the time limits counting from the times the fault calls were referred by the 1823 Call Centre. Audit found that the contractor had not reported its non-compliance in this way for 576 cases from June 2014 to May 2015 (see Table 3 for details).

Table 3

**Unreported cases of non-compliance
with time limits on fault call attendance
(June 2014 to May 2015)**

Type of work	Number of cases of non-compliance with the time limits		
	Urgent fault call	Non-urgent fault call	Total
Arrival on site	46	292	338
Fault rectification	82	156	238
Total	128	448	576

Source: Audit analysis of HyD records

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Non-compliance with time limit for providing confirmation of fault rectification

2.20 According to the contractors' monthly reports of follow-up actions on the fault calls from June 2014 to May 2015, the stipulated requirement to provide confirmation on fault rectification within three calendar days for 95% of the cases was fully met in all three MOM contracts. However, in examining the case details attached to the monthly reports, Audit again found instances of non-compliance. In fact, one contractor had not complied with the requirement throughout the 12-month period. The actual compliance rates ranged from 5% to 85% of the fault call cases. According to the MOM contract, payment may be deducted from the contractor for non-compliance. However, up to August 2015, no record was available to show that the HyD had enforced the payment deduction provisions against the contractor for the non-compliance.

2.21 In light of audit observations in paragraphs 2.18 to 2.20, the HyD needs to address the inadequacies in monitoring the contractors' performance in attending to fault calls. There is also a need to verify the accuracy of the monthly reports submitted by the contractors against the attached case details and enforce the payment deduction provisions where appropriate.

Inadequacies in HyD's site inspections of fault call cases

2.22 As part of the mechanism for monitoring the contractors' attendance to fault calls, the HyD requires its works supervisors for each MOM contract to conduct site inspections on selected cases to ascertain the completion of the repair works. However, in the absence of inspection guidelines, inconsistencies and inadequacies in the site inspection arrangements were noted. For one of the three contracts (i.e. Kowloon and New Territories East region), site inspection records were not maintained for supervisory review. Audit's sample check of the inspection records of the other two contracts for six selected months from January 2013 to May 2015 revealed marked variations in the frequency of inspection (i.e. ranging from 26% to 56% of the fault call cases received in a month for Hong Kong Island and Lamma Island region, and 0% to 19% for New Territories West region). There is a need to rationalise the frequency of inspection.

2.23 Since November 2014, the HyD has requested the contractors to submit photographs of their completed repair works as supporting documents. As these photographs serve similar purpose to the HyD's site inspections (i.e. ascertaining the completion of works), there may be scope for reducing the frequency of inspection if this new arrangement is formalised as a contractual requirement. However, the HyD had not incorporated such a requirement in the contract for New Territories West region commencing in October 2015. There is a need to formalise such requirement in future contracts. Moreover, in view of the greater reliance placed on the contractors' submitted photographs as evidence of their fault rectification works, there is a need to build in adequate safeguards (such as the new mobile reporting technology to be used by the EMSTF — see para. 3.23(d)) to ensure the authenticity of these photographs.

Performance pledge on fault calls

2.24 While the HyD has specified in the MOM contracts time limits for the contractors to respond to fault calls and rectify faults, it has not translated such service levels into performance pledges as commitments to the public. The HyD has only published the performance pledge for providing replies to public enquiries and complaints within seven working days. However, for special lighting in subways, footbridges and public transport interchanges which is maintained by the EMSTF under an SLA, the EMSD has published on its website the target response times to fault calls as a performance pledge. To enhance transparency and improve accountability, the HyD should consider doing the same.

Audit recommendations

2.25 **Audit has *recommended* that the Director of Highways should:**

- (a) **clearly define the two time limits for completing different types of repair works for urgent faults for the effective monitoring of contractors' performance in attending to fault calls;**
- (b) **review the different time limits used for measuring urgent fault call cases by the three contractors (see para. 2.19(a)) to see if they are fully justified having regard to the nature of repair works involved and take appropriate action if there is any irregularity found;**

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- (c) seek explanations from the contractor concerned (see para. 2.19(b)) for not following the rules in measuring its compliance with the time limits for completing fault rectification works and take regulatory actions on confirmed cases of non-compliance in accordance with the contract provisions;**
- (d) seek explanations from the contractor concerned (see para. 2.20) for stating in its monthly reports full compliance with the time limit in providing confirmation on fault rectification which was not substantiated by the case details and take regulatory actions on confirmed cases of non-compliance in accordance with the contract provisions;**
- (e) address the inadequacies in monitoring the contractors' performance in attending to fault calls and verify the accuracy of contractors' monthly reports against the case details;**
- (f) issue guidelines on site inspections of fault call cases to require staff concerned to:**
 - (i) maintain proper records of their inspections;**
 - (ii) rationalise the frequency of inspection, taking into account the assurance already provided by the contractors' photographs of their completed fault rectification works; and**
 - (iii) build in adequate safeguards to ensure the authenticity of the contractors' photographs of completed fault rectification works;**
- (g) formalise the arrangements for contractors to submit photographs of their completed fault rectification works as a contractual requirement; and**
- (h) consider publishing performance pledges on target response times to fault call attendance and fault rectification under the MOM contracts to improve accountability and transparency.**

Response from the Government

2.26 The Director of Highways agrees with the audit recommendations. He has said that:

- (a) the HyD has been monitoring and will continue to closely monitor the contractors' performance and ensure their compliance with the time limits specified in the contracts;
- (b) regarding site inspections of fault call cases, since November 2014, the HyD has requested the contractors to report completion of fault repairs together with photographs of completed works (see para. 2.23) directly to the HyD's engineers who will check the compliance of all fault call cases handled by the contractors. The HyD will incorporate the relevant requirements in future contracts. Surprise checks have been conducted to verify the authenticity of the contractors' photographs. The HyD will review the frequency of site inspections so as to save resources and devise a standardised record format for site staff to record the inspection results; and
- (c) the HyD will explore the possibility of devising a performance pledge covering its responses to the public reports of faulty road lights that can be easily understood by the public.

Management of maintenance works

2.27 Under the MOM contracts, the contractors are paid a monthly lump-sum fee to carry out the following maintenance works:

- (a) *Scheduled maintenance works.* They mainly include annual inspection of all lighting equipment, periodic cleaning of lanterns and photo-electric controllers, and group replacement of lamps. The works shall be scheduled in an evenly distributed manner. The contractors are required to submit a programme (with the proposed dates and routes for the scheduled works) for approval by the HyD and monthly maintenance reports with details of works completed during the month; and

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- (b) *Specified unscheduled maintenance works.* They cover works such as fault repair, temporary restoration of lighting services and ad-hoc cleaning of graffiti as identified during the contractors' inspections or notified by the HyD. The contractors are required to complete the works within a specified time limit and report to the HyD on a monthly basis the works completed.

2.28 According to the MOM contracts, the HyD shall normally carry out inspections on 10% of the completed works to determine the items or quantities of scheduled maintenance works that are not in compliance with the contract requirements. Default notices will be issued to the contractors for the non-compliant items identified and deductions from the lump-sum payments will be made accordingly.

2.29 The HyD uses a computerised PLIS for managing information (such as location, specification, maintenance and fault history) of all its road lighting equipment. The MOM contractors are required to update information in the PLIS based on records of completed maintenance works.

Scheduled maintenance works not carried out in accordance with stipulated frequencies

2.30 In their monthly reports submitted to the HyD, the contractors are required to state the reasons for any outstanding scheduled maintenance works and seek the HyD's agreement to reschedule the works with a view to completing them within a reasonable time. Audit examination of monthly reports from August 2014 to January 2015 revealed that some of the scheduled maintenance works could not be carried out mainly due to access problems such as obstructions by scaffolding, work sites, vegetation and locked gates. To ascertain whether such outstanding works have subsequently been completed to meet the stipulated maintenance frequency requirement, Audit analysed the last completion dates of the scheduled maintenance works as recorded in the PLIS as at 30 April 2015. As shown in Table 4, 14 types of scheduled maintenance works have been found not complying with the stipulated maintenance frequencies.

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Table 4

**Types and number of works not complying
with stipulated maintenance frequencies
(30 April 2015)**

Item	Type of scheduled maintenance works	Predetermined cycle	Total number of installations	Installations not maintained per predetermined cycles	
				Number	%
<i>Inspections of:</i>					
1	lighting columns	Once every 12 months	131,152	9,304	7.1
2	control cubicles		3,925	335	8.5
3	traffic bollards		10,820	2,826	26.1
4	gantry sign and roadside directional sign lighting		1,617	290	17.9
<i>Cleaning of:</i>					
5	lanterns	Once every 6 months	98,165	10,260	10.5
		Once every 12 months	43,141	914	2.1
6	lighting columns with silicone painting or anti-graffiti coating	Once every 6 months	39,760	2,092	5.3
7	control cubicles with silicone painting or anti-graffiti coating		593 (Note 1)	127	21.4
8	photo-electric controllers		503 (Note 1)	15	3.0
9	traffic bollards		10,820	536	5.0
10	gantry sign and roadside directional sign lighting		1,617	625	38.7

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Table 4 (Cont'd)

Item	Type of scheduled maintenance works	Predetermined cycle	Total number of installations	Installations not maintained per predetermined cycles	
				Number	%
<i>Group replacement of lamps for:</i>					
11	road lights (Note 2)	Once every 16 months	525	136	25.9
		Once every 18 months	19	0	0.0
		Once every 24 months	65,910	8,894	13.5
		Once every 36 months	74,686	21,658	29.0
12	ITBs	Once every 16 months	6,194	730	11.8
		Once every 18 months	3,706	51	1.4
13	gantry sign and roadside directional sign lighting	Once every 24 months	1,617	632	39.1
14	group re-painting of lighting columns	Once during the contract period	46,829	5,288 (Note 3)	11.3

Source: Audit analysis of HyD records

Note 1: The figures represented those for one region only as the dates of last cleaning of control cubicles were not recorded in the PLIS for the other two regions.

Note 2: 166 LED lamps were not subject to group replacement.

Note 3: These represented outstanding repainting works for lighting columns of completed contracts.

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2.31 As shown in item (1) of Table 4, of the 131,152 lighting columns, 9,304 (7.1%) were not inspected according to the predetermined cycle (i.e. once every 12 months). Ageing analysis of these 9,304 columns revealed that 941 (10.1%) had not been inspected for 3 years or more. Another example of non-compliant maintenance works which had been outstanding for a number of years related to cleaning of lanterns (see Appendix C for details). Audit considers that the situation is unsatisfactory as the scheduled maintenance works are important to keep the road lighting system working properly. The HyD needs to step up monitoring of the contractors' scheduled maintenance works to ensure that they are carried out in accordance with the stipulated frequencies.

2.32 As shown in Appendix C, there were cases of delay in carrying out the scheduled maintenance works by more than four years, i.e. before the terms of the current MOM contracts. For outstanding works arising from previous MOM contracts but for which payments had already been made as part of the monthly lump-sum fees, the HyD needs to follow up with contractors concerned on the remedial measures, seeking legal views where necessary. To prevent recurrence of similar problems, the HyD needs to consider incorporating suitable provisions in future MOM contracts for making deductions from the monthly lump-sum fees for the non-performance of maintenance works.

Need to review the replacement cycles of lamps

2.33 As can be seen in item (11) of Table 4, the replacement cycle of lamps ranged from 16 to 36 months depending on their types. Audit examined the current and the previous MOM contracts for the three regions and found that:

- (a) the replacement cycle for low wattage high pressure sodium lamps had been revised from once every 36 months to once every 24 months for MOM contracts commencing in October 2010 and thereafter;
- (b) the replacement cycle for fluorescent lamps had been revised from once every 24 months to once every 16 months for MOM contracts commencing in October 2013 and thereafter; and

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- (c) while the HyD's decisions to shorten the replacement cycles carried additional cost implication, justifications were not documented (Note 17).

2.34 Audit analyses of the last replacement dates for the two types of lamps recorded in the PLIS as at 30 April 2015 revealed that 8,093 lamps (comprising 7,957 low wattage high pressure sodium lamps and 136 florescent lamps) had not been replaced in accordance with the stipulated cycles (see Appendix D for details). The reported road lighting availability (ranging from 99.43% to 99.97%) from 2013 to 2014 suggests that the unreplaced lamps had worked longer than the existing replacement cycles. Audit's field inspections of 8 of these lamps during August 2015 revealed that all of them were still in working condition. In this connection, Audit noted that the HyD had excluded group replacement of lamps from the scheduled maintenance works list for the new MOM contract for New Territories West region commencing in October 2015 to allow greater flexibility in the timing of ordering the replacement works in future. In Audit's view, the HyD still needs to review the service lives of all types of lamps currently in use with a view to determining the most cost-effective replacement cycles.

Prolonged use of temporary overhead cables

2.35 According to the MOM contracts, when the power supply to a series of lights is faulted and cannot be repaired within a short time, the contractors shall arrange restoration of the lighting service by installing temporary overhead cables. The contractor shall remove all temporary overhead cables as soon as practicable by laying permanent cables.

2.36 Audit examination of the HyD's records revealed that there was prolonged use of temporary overhead cables in 245 locations as summarised in Table 5. These temporary overhead cables could pose safety concerns because according to the Code of Practice for the Electricity (Wiring) Regulations issued by the EMSD, the cables should have a minimum vertical clearance of 5.2 metres above ground. However, according to the PLIS records, many lampposts have a height of 5 metres only. A case in point is the New Territories West region where

Note 17: *In September 2015, the HyD informed Audit that the replacement cycles of the lamps concerned had been reviewed and discussed at internal meetings where supplier information on the service lives of lamps and the complaint figures on unlit lamps were taken into consideration.*

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temporary overhead cables in 44 (25%) of 174 locations were spanning between lampposts of 5 metres in height as at 30 April 2015. An example of prolonged use of an overhead cable with vertical clearance not complying with the Code of Practice requirement is shown in Photograph 2.

Table 5

**Prolonged use of temporary overhead cables
(30 April 2015)**

Region	Number of locations with temporary overhead cables	Number of locations with prolonged use of temporary overhead cables
Kowloon and New Territories East	150	133 (89%) with cables installed from October 2005 to September 2010
New Territories West	174	103 (59%) with cables installed prior to October 2011
Hong Kong Island and Lamma Island	35	9 (26%) with cables in use for over 2 years
Overall	359	245 (68%)

Source: Audit analysis of HyD records

Photograph 2

A temporary overhead cable installed before October 2011



Source: Photograph taken by Audit at 5:58 pm on 17 September 2015

Remarks: According to HyD records, the overhead cable was installed before October 2011. The cable connecting two 5-metre lampposts did not comply with the EMSD's Code of Practice requirement on the minimum vertical clearance of 5.2 metres above ground.

Audit recommendations

2.37 Audit has recommended that the Director of Highways should:

- (a) step up monitoring of the contractors' scheduled maintenance works to ensure that they are carried out in accordance with the stipulated frequencies;**
- (b) consider incorporating suitable provisions in future MOM contracts for making deductions from the monthly lump-sum fees for the non-performance of maintenance works;**

- (c) **follow up outstanding maintenance works with contractors concerned for completed MOM contracts and where appropriate, seek legal advice on the possible actions to be taken;**
- (d) **review the service lives of all types of lamps currently in use with a view to determining the most cost-effective replacement cycles and keep proper records of the review results; and**
- (e) **require contractors concerned to expedite action on completing the outstanding scheduled maintenance works and the replacement of temporary overhead cables by permanent ones.**

Response from the Government

2.38 The Director of Highways agrees with the audit recommendations. He has said that:

- (a) the timely completion of scheduled maintenance works is subject to external constraints such as inclement weather and unforeseen obstructions. Under the contract provisions, when encountering such problems, contractors are required to submit revised programmes for the outstanding works for the HyD's agreement (see para. 2.30). The HyD has been monitoring and will continue to closely monitor the contractors' performance on scheduled maintenance works. For works which cannot be fully completed because of external constraints, the HyD will consider incorporating suitable provisions in future contracts; and
- (b) in contrast with the corrective repairs of numerous scattered individual faulty lamps after they reach the end of their service lives, group lamp replacement is a cost-effective preventive measure widely adopted overseas. Such an arrangement can also reduce the disruption in providing road lighting to the public. The HyD also considers that continuous review on replacement cycles of lamps is necessary with a view to saving costs. In this connection, the HyD has been collecting data of lamp failure for statistical analysis.

Management of the Public Lighting Information System

2.39 As mentioned in paragraph 2.29, the MOM contractors are required to update information in the PLIS based on records of completed maintenance works. Besides, they have to conduct annual inspections to verify the PLIS data. Deductions from contract payments will be made if the HyD identifies inaccuracy in specified PLIS data (e.g. lamppost locations).

Discrepancies in lamppost locations

2.40 The MOM contractors are required to ensure that the locations of all lampposts recorded in the PLIS shall be consistent with a set of electronic base maps of the Lands Department (Lands D). They should report to the HyD any discrepancies over 3 metres found in the lamppost locations as recorded in the PLIS and the base maps. Based on the contractors' regular updates on lamppost locations, the HyD will inform the Lands D to update its maps, including the GeoInfo Map which is available to the general public for searching locations of buildings and public facilities (including lamppost locations) in Hong Kong.

2.41 In a review of lamppost locations as at 31 December 2014, the HyD found that 12,751 (10% of the total 131,152) lampposts recorded in the PLIS had deviated for more than 3 metres from the locations recorded in the GeoInfo Map (see details in Appendix E).

2.42 As at August 2015, the HyD was still in the process of verifying and rectifying the discrepancies. Audit considers that the HyD needs to set a target completion date for verifying/rectifying the discrepancies found between the PLIS and the GeoInfo Map.

Incomplete records in PLIS

2.43 Audit examination of the PLIS records revealed cases of incomplete records:

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- (a) ***Gantry sign and roadside directional sign lighting.*** Regarding the 1,617 records of gantry sign and roadside directional sign lighting kept in the PLIS as at 30 April 2015, Audit found that 98% had one or more of the required data missing (see details in Appendix F);

- (b) ***Lighting cable drawpits.*** For the 7,600 records of drawpits (see Photograph 1(d) in para. 1.2 for an example) kept in the PLIS, as at July 2015, the required data found missing included number of spare cable ducts (4,586 or 60%) and number of ducts with cables (4,626 or 61%); and

- (c) ***Fault history.*** According to the MOM contracts, the contractors should maintain the fault history (including the nature of fault) of all types of road lighting equipment in the PLIS. Audit found that only the fault history for cables was maintained in the PLIS but not for other types of lighting equipment (e.g. lamppost). Audit examination of the cable fault records (Note 18) also revealed that for one region, there was no record of cable faults after December 2013.

2.44 The large number of records in the PLIS found with inaccurate and incomplete data (see paras. 2.40 to 2.43) is unsatisfactory as the PLIS may no longer be able to support accurate analysis of systemic maintenance issues. It also raises the question on the adequacies of the HyD's monitoring of the contractors' annual inspections and maintenance of PLIS records. In this connection, Audit found that in the 6-month period from August 2014 to January 2015, only 6% (instead of the laid-down 10% — see para. 2.28) of the completed works in Hong Kong Island and Lamma Island region were selected for inspection in 5 of the 6 months. Audit examination of the HyD's inspection records of completed maintenance works for gantry sign and roadside directional sign lighting also revealed that the HyD had failed to identify cases of missing required data in the PLIS as mentioned in paragraph 2.43(a) which should be subject to contract payment deductions (see para. 2.39). The HyD needs to take prompt actions to rectify the problems.

Note 18: *As at June 2015, the numbers of cable fault records for Hong Kong Island and Lamma Island region, Kowloon and New Territories East region, and New Territories West region were 1,695, 2,222 and 3,898 respectively.*

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2.45 In September 2015, upon Audit's enquiry, the HyD said that:

- (a) the existing PLIS had been developed for over 10 years. Owing to limited resources, there had been no technical support for system maintenance or upgrading; and
- (b) there were deficiencies in the PLIS. For example, there was no interface with the contractors' database. Due to changed circumstances, some data fields had become less important for daily road lighting operation and maintenance works.

In Audit's view, the HyD should carry out a review of the PLIS with a view to improving the system performance for better supporting road lighting maintenance works.

Audit recommendations

2.46 **Audit has *recommended* that the Director of Highways should:**

- (a) **set a target completion date for verifying/rectifying the discrepancies found in the lamppost locations between the PLIS and the GeoInfo Map;**
- (b) **require the contractors concerned to:**
 - (i) **take prompt actions to rectify the problems of inaccurate and incomplete records in the PLIS; and**
 - (ii) **account for the failure to detect such problems in their annual inspections of lampposts, and gantry sign and roadside directional sign lighting;**
- (c) **take regulatory actions against any non-compliance with the contract requirements on proper maintenance of the PLIS records;**

- (d) remind relevant staff to carry out inspections on the contractors' completed works as laid down in the MOM contracts; and
- (e) conduct a review of the PLIS with a view to improving the system performance for better supporting road lighting maintenance works.

Response from the Government

2.47 The Director of Highways agrees with the audit recommendations. He has said that:

- (a) from road lighting maintenance point of view, the lamppost positional accuracy does not affect the maintenance works. Notwithstanding this, the HyD still wishes to enhance the data accuracy as an action of continuous improvement. The HyD is using the Mobile Mapping System Technology for capturing and verifying lamppost positions. The HyD has commenced to rectify the discrepancies for Hong Kong Island and anticipates that the rectification work can be completed by the end of the first quarter of 2016. Rectification of all the discrepancies is expected to be completed by the end of the third quarter of 2018;
- (b) the HyD will continue to ensure that the contractors update PLIS records in accordance with contract requirements and to ensure the accuracy of the data provided;
- (c) the HyD has already revised the inspection criteria on contractor's maintenance works in the new MOM contract based on the inventory and available resources. A payment deduction mechanism has been adopted with reference to the inspection results with a view to enhancing the quality of the maintenance works; and
- (d) the HyD has started a review of the PLIS in 2014 and is seeking funding from the Office of the Government Chief Information Officer for its upgrading. Through the upgrading, the PLIS and the associated database will be enhanced and revamped to improve the efficiency of the system in handling the large amount of data with high accuracy.

PART 3: OPERATION AND MAINTENANCE OF SPECIAL LIGHTING

3.1 This PART examines the following issues relating to the operation and maintenance of special lighting under the SLA between the HyD and the EMSTF:

- (a) availability of the special lighting system (paras. 3.4 to 3.11);
- (b) attendance to fault calls (paras. 3.12 to 3.18); and
- (c) scheduled maintenance works (paras. 3.19 and 3.20).

Subcontracting arrangements under SLA

3.2 In 2014-15, the HyD paid SLA charges totalling \$49 million to the EMSTF. As mentioned in paragraph 1.10(a), the maintenance of general special lighting installations under the SLA is undertaken by an outsourced contractor (Subcontractor A). The EMSTF's roles are arranging and managing the outsourced contract. Similarly, for some of the other special lighting installations (viz. the high bay lighting at public transport interchanges and some of the high mast lighting), the EMSTF has subcontracted the maintenance works to two other subcontractors (Subcontractors B and C). The three subcontracts together cover 58,997 (74%) of the 79,225 special lights as at April 2015 under the SLA. Maintenance of the remaining 26% special lighting installations is handled by the EMSTF in-house staff (see Table 6). The scope of work under the subcontracts includes patrol service on the lighting operation, fault call attendance and scheduled maintenance works (e.g. group replacement of lamps). The EMSTF issues works orders to the subcontractors for carrying out these maintenance works and pays for their services on a re-measurement basis.

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Table 6

**Distribution of maintenance responsibilities
for special lighting
(April 2015)**

Maintenance agent	Number of lighting points (%)
Subcontractor A for maintaining general special lighting in 1,049 locations (Note 1)	49,109 (62%)
Subcontractor B for maintaining high bay lighting at 77 public transport interchanges	8,492 (10%)
Subcontractor C for maintaining high mast lighting in 19 locations (Note 2)	1,396 (2%)
Subtotal	58,997 (74%)
EMSTF in-house staff for maintaining the remainder of other special lighting in 108 locations (Note 3)	20,228 (26%)
Total	79,225 (100%)

Source: EMSTF records

Note 1: These comprised 460 footbridges, 399 subways, 93 ferry concourses/walkways and 97 tram shelters.

Note 2: Patrolling of high mast lighting in the Kowloon areas is carried out by EMSTF in-house staff.

Note 3: Special lighting points directly maintained by EMSTF staff included those in underpasses and noise enclosures.

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3.3 The EMSTF has laid down guidelines for its staff to conduct spot checks on the subcontractors' works. The percentage of check varies for different types of works (e.g. 5% check on patrol service and 100% check on group replacement of lamps). The subcontractors have to submit reports on their completed works to the EMSTF on a regular basis. Based on these reports and those compiled by its in-house maintenance staff, the EMSTF provides monthly performance reports to the HyD.

Availability of the special lighting system

3.4 Similar to the MOM contracts for road lighting, the HyD has laid down the following operational requirements in the SLA to ensure a high service level of special lighting:

- (a) the target average equipment availability shall be 99.5% on a monthly basis; and
- (b) patrol service on the lighting operation shall be conducted once bi-weekly.

Equipment availability requirement not reflected in general special lighting subcontract

3.5 Under the general special lighting subcontract, Subcontractor A is responsible for providing patrol service on the lighting operation and carrying out repair works (Note 19). However, Audit noted that the 99.5% equipment availability requirement stipulated in the SLA had not been incorporated in the general special lighting subcontract. The omission is unsatisfactory as the attainment of an overall 99.5% equipment availability depends to a large extent on Subcontractor A's maintenance works (which covers 62% of the total special lighting points — see Table 6 in para. 3.2). There is a need to make Subcontractor A aware of and contractually responsible for meeting the equipment availability requirement for lighting installations under its purview.

Note 19: *For the high bay and high mast lighting subcontracts, Subcontractors B and C may be required to carry out repair works upon the issue of works orders by the EMSTF.*

Inadequacies in the basis of calculating equipment availability

3.6 Unlike the MOM contracts, the SLA has not stipulated the method for calculating the equipment availability of the special lighting system. According to the HyD and the EMSTF, the following formula had been used to calculate the monthly equipment availability figures:

$$100\% - \frac{100 \times \text{number of faulty lights referred by the 1823 Call Centre and subsequently confirmed}}{\text{Total number of lighting points inspected during regular patrols}} \%$$

3.7 Audit noted that there were inadequacies in using the number of faulty lights in the above formula as it only represented those faulty lights which had become the subject of public complaints. The monthly equipment availability of special lighting so determined might not fully reflect the overall lighting operation, particularly in areas less frequented by the public. For example, in 2014-15, the 1823 Call Centre received complaints about 1,542 faulty special lights while the EMSTF and its subcontractors reported a total of 39,470 faulty special lights in that year (Note 20). Given that the SLA has required regular patrols for all special lighting installations which are subject to the EMSTF's spot checks, it would appear more appropriate to use the number of faulty lights as identified by such patrols for calculating the equipment availability of special lighting.

3.8 In response to Audit's enquiry, the EMSTF and the HyD agreed in June 2015 to adopt the number of faulty lights identified by regular patrols for calculating the monthly equipment availability. According to the EMSTF, using the revised methodology, the monthly equipment availability figures for 2014-15 would fall below the SLA requirement of 99.5% (i.e. ranging from 98.7% to 99.4%) instead of those reported by the EMSTF using the formula mentioned in paragraph 3.6 (ranging from 99.8% to 100% — see Appendix G for details).

Note 20: *The number of faulty lights excluded those found in underpasses/noise enclosures as such information was not available (see para. 3.17).*

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Special lighting points omitted from regular patrol service

3.9 According to the SLA, the patrol service on lighting operations shall cover the special lighting points listed in the SLA and any subsequent additions during the agreement period. In 2014, the HyD developed a computerised Special Lighting Information System for managing information of its special lighting points. In checking the HyD's computer records of special lighting points against those listed in the 2015 SLA, Audit found that 4 footbridges/subways (involving 329 special lighting points) were not listed in the SLA. By checking the special lighting points listed in the SLA to the three subcontracts and the patrol reports, Audit also found that 18 footbridges/walkways (involving 1,558 special lighting points) were missing in the subcontract and hence the patrol routes. In other words, a total of 22 footbridges/subways/walkways (involving 1,887 special lighting points) were omitted from the regular patrol service.

3.10 In August 2015, Audit carried out site inspections of 3 of these 22 footbridges/subways/walkways omitted from the regular patrol service and found that 2 had a total of 28 unlit lights (see Photographs 3 and 4 for examples). Audit considers that the HyD and the EMSTF need to tighten control to ensure that all special lighting points are listed in the SLA/subcontract and covered in the regular patrol service.

Photograph 3

A footbridge in Admiralty not covered
by regular patrol service



Source: *Photograph taken by Audit at 7:25 pm on 7 August 2015*

Legend: **→** 7 unlit lights

Remarks: *There were 16 more unlit lights on the other side of the footbridge not captured in this photograph.*

Photograph 4

**A footbridge in San Po Kong not covered
by regular patrol service**



Source: Photograph taken by Audit at 7:12 pm on 27 August 2015

Legend: → 2 unlit lights

Remarks: There were 3 more unlit lights on the other sections of the footbridge not captured in this photograph.

Reduced patrol frequency in SLA not yet implemented

3.11 In the previous SLA (April 2013 to March 2015), the HyD required the EMSTF to provide patrol service for lighting operation on a weekly basis. Since the commencement of the current SLA in April 2015, the HyD has required the EMSTF to reduce the frequency of the patrol service from weekly to bi-weekly having regard to the past low failure rates of special lighting installations. However, the EMSTF had not made corresponding adjustments to the patrol frequency of the three ongoing subcontracts which was based on the previous SLA's requirement (Note 21). As a result, the subcontractors had continued to provide the patrol service on a weekly basis from April 2015 and additional cost was incurred for patrol service that was superfluous to the HyD's requirement (Note 22).

Attendance to fault calls

3.12 According to the SLA, the EMSTF has to respond to any complaints and reports on faulty lights, and complete the repair works within the specified time limits as shown in Table 7.

Note 21: *In September 2015, the EMSTF informed Audit that works orders for carrying out patrols based on previous SLA requirement had been issued to the subcontractors on 31 March, and 8 and 20 May 2015, before the current SLA was officially signed on 28 May 2015. However, Audit noted that the reduced patrol frequency requirement had been incorporated in the draft SLA for discussion between the HyD and the EMSTF in November 2014. Moreover, the EMSTF continued to issue a works order based on the old requirement to Subcontractor B in July 2015.*

Note 22: *Additional service cost of about \$0.05 million a month was borne by the HyD as under the SLA, it reimbursed the EMSTF the contract payments of the general special lighting subcontract plus 16% management fees (see para. 1.11). Additional service cost of about \$0.04 million a month under the other two subcontracts was borne by the EMSTF.*

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Table 7

Fault call response time requirements

Nature of fault	Response time (arrival time on site)	Fault rectification time	Compliance level (Note 1)
Major (Note 2)	Within 2 hours	Minor repair (Note 3): Within 3 hours Others: Within 24 hours	98.5%
Minor	Within 24 hours	Within 72 hours	98.5%

Source: HyD records

Note 1: The compliance level was revised from 98% to 98.5% for SLAs commencing in April 2013 and afterwards.

Note 2: Major fault is defined as power failure or total tripping of the main circuit breaker of subways, footbridges, ferry concourses/walkways, underpasses, high bay and high mast lighting covered under the SLA. All other faults are classified as minor faults.

Note 3: Minor repair refers to minor adjustment or replacement of minor components (including faulty photo-electric controllers leading to abnormal operating time of special lighting installations).

Lower service standards on fault call attendance in SLA than MOM contracts

3.13 Under the MOM contracts for road lighting, the contractors have to arrive on site within two hours upon receipt of an urgent fault call and complete minor repairs within three hours. The completion time for more complicated repairs to urgent faults would be less than 12 hours, and repairs to non-urgent faults would be less than 24 hours (see Table 2 in para. 2.16). The SLA used different terminologies from the MOM contracts (see Table 7 in para. 3.12) to represent fault cases accorded with different priorities (i.e. major faults instead of urgent faults to stand for priority cases, and minor faults instead of non-urgent faults to stand for non-priority cases). In essence, the service standards in the SLA were lower than those of the MOM contracts, as follows:

- (a) ***Priority cases.*** While the response time of two hours for major faults under the SLA was the same as that for urgent fault calls under the MOM contracts, the fault rectification time limit of within 24 hours was longer than the within 12 hours allowed in the MOM contracts when more complicated repair was involved; and

- (b) ***Non-priority cases.*** For minor faults in the SLA, the response time was within 24 hours and fault rectification time was within 72 hours which were longer than within 12 hours and 24 hours respectively for non-urgent faults in the MOM contracts.

3.14 In September 2015, the HyD informed Audit that the main reason for adopting lower service standards in the SLA was that most of the special lighting facilities were for pedestrians (i.e. those under the general special lighting subcontract — see Note 1 to Table 6 in para. 3.2) with less concern in traffic safety. For special lighting in underpasses and noise enclosures which usually involved more complicated electrical systems than road lighting, it would take a longer time for rectifying complicated faults. However, Audit noted that the target equipment availability for the SLA had not been met in 2014-15 (see para. 3.8) and lamp failure in pedestrian-related facilities was a contributing factor. For public safety, Audit considers that there is a need to closely monitor the situation and consider aligning the fault attendance service standards for general special lighting in the SLA with those in the MOM contracts where warranted by circumstances.

Service standard on fault call attendance not duly reflected in general special lighting subcontract

3.15 Under the general special lighting subcontract, Subcontractor A shall handle emergency fault calls and public complaints, and carry out repair works in accordance with the specified service standard. However, Audit noted that the service standard on fault call attendance laid down in the SLA in April 2013 was not duly reflected in the general special lighting subcontract. For the subcontract commencing in May 2013, the compliance level was still set at 98% instead of the

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98.5% (Note 23) required in the April 2013 SLA (see Note 1 to Table 7 in para. 3.12). According to the EMSTF, although the compliance level was set at 98%, it has been managing Subcontractor A to meet the SLA requirement of 98.5%. Notwithstanding this, there is a need for the EMSTF to incorporate the SLA's service standard on fault call attendance to ensure its enforceability on the subcontractor.

3.16 In a scrutiny of the EMSTF/Subcontractor A's fault attendance reports for January 2015, Audit found that the detailed response times and rectification times were not always recorded by Subcontractor A (i.e. only the dates were provided). As timeliness of the fault rectification works is a key performance indicator, the EMSTF needs to remind Subcontractor A to record all key dates/times in the fault attendance reports.

Rectification of faults identified during regular patrols

3.17 While the SLA requires the conduct of regular patrols of special lighting installations, no time limit has been imposed on the rectification of any faulty lights found during the patrols (the MOM contracts have stipulated time limits in this regard — see para. 2.2(b)). Audit sample checked the subcontractors' patrol reports and found that there were delays in rectifying the faulty lights so identified:

- (a) ***General special lighting subcontract.*** According to Subcontractor A's patrol reports from May 2013 to June 2015, some 325 lights in 13 locations had been repeatedly reported to be faulty (see Photographs 5 and 6 for examples) but repair works had remained outstanding as at June 2015 (see Appendix H for details). In September 2015, the EMSTF informed Audit that for most of the delay cases, the repair works would require replacement of underground cables or removal of obstructions; and

Note 23: *According to the EMSTF, the tender specifications for the May 2013 subcontract was issued in January 2013 based on the then prevailing SLA requirement. However, Audit noted that the EMSTF had not made subsequent amendment to the standard in the subcontract to tie in with the April 2013 SLA requirement.*

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- (b) *High bay and high mast lighting subcontracts.* According to patrol reports submitted by Subcontractors B and C from April 2014 to March 2015, 25 high bay lights in 9 public transport interchanges and 18 high mast lights in 5 locations had been repeatedly reported to be faulty but repair works had remained outstanding as at March 2015 (Note 24).

Regular patrols of special lighting in underpasses/noise enclosures are carried out by the EMSTF staff. According to the EMSTF, the replacement of faulty lights in these places would involve road closure. To minimise the disruption to traffic, the SLA allowed a lamp failure rate of 10% at these locations but in practice, the EMSTF would arrange rectification works before 10% of the lights were found to be faulty. Audit noted from the EMSTF's patrol report for March 2015 that faulty lights in underpasses and noise enclosures were found but the number was not recorded. Without the faulty light information, there is a risk that the rectification works might not be conducted in a timely manner.

Note 24: *According to the EMSTF, for about half of the faulty lights, there were access difficulties or their repair works required removal of obstructions.*

Photograph 5

**Faulty lights in Central
not yet rectified since identification in May 2013**



Source: Photograph taken by Audit at 9:43 pm on 19 August 2015

Legend: → 2 unlit lights

Photograph 6

**Faulty lights of a footbridge at Salisbury Road
not yet rectified since identification in March 2014**



Source: Photograph taken by Audit at 9:41 pm on 19 August 2015

Legend: → 3 unlit lights

3.18 Delays in rectifying faulty lights could increase safety risks to pedestrians and other road users. There is a need to expedite action in this regard, especially in light of the consistently unmet target equipment availability in 2014-15 (see para. 3.8).

Scheduled maintenance works

3.19 Under the SLA, the EMSTF has to arrange scheduled maintenance works for the special lighting installations, including periodic group replacement of lamps and cleaning of lanterns. For those installations under the subcontractors' purview, the EMSTF would issue works orders for them to carry out the scheduled maintenance works.

Scheduled maintenance works not carried out in accordance with the stipulated frequencies

3.20 Audit examination of the completed works reports of the EMSTF and subcontractors for the previous SLA period (i.e. April 2013 to March 2015) revealed that periodic group replacement of lamps and cleaning of lanterns were not carried out in accordance with the stipulated frequencies in the SLA (see Table 8 for details). The situation is unsatisfactory as the scheduled maintenance works are important to keep the special lighting installations working properly.

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Table 8

**Types and number of maintenance works not complying
with the stipulated frequencies
(April 2013 to March 2015)**

Type of scheduled maintenance works	Stipulated frequency	Total number of locations	Number of locations not maintained in accordance with stipulated frequencies	
			throughout 2 years (%)	occasionally (Note) (%)
(A) Cleaning of lanterns:				
Subway	Once every 12 months	389	54 (13.9%)	297 (76.3%)
Footbridge		434	96 (22.1%)	248 (57.1%)
Ferry concourse/ walkway		93	38 (40.9%)	53 (57.0%)
Tram shelter		95	6 (6.3%)	89 (93.7%)
High mast		21	8 (38.1%)	13 (61.9%)
High bay	Once every 6 months	78	0 (0.0%)	7 (9.0%)
Underpass/noise enclosure		100	72 (72.0%)	28 (28.0%)
(B) Group replacement of lamps:				
Subway	Once every 12 months	389	55 (14.1%)	296 (76.1%)
Footbridge	Once every 18 months	434	96 (22.1%)	0 (0.0%)
Ferry concourse/ walkway		93	38 (40.9%)	0 (0.0%)
Tram shelter		95	6 (6.3%)	0 (0.0%)
High mast	Once every 36 months	21	0 (0.0%)	0 (0.0%)
High bay	Once every 18 months for white light source lamps / Once every 36 months for high pressure sodium lamps	78	11 (14.1%)	0 (0.0%)
Underpass/noise enclosure	Once every 12 months for fluorescent lamps / Once every 36 months for high pressure sodium lamps	100	44 (44.0%)	22 (22.0%)

Source: Audit analysis of EMSTF records

Note: For example, according to the stipulated frequency, lanterns in subways should be cleaned twice during the 2-year period but the lanterns in 297 subways were only cleaned once.

Audit recommendations

3.21 **Audit has *recommended* that the Director of Electrical and Mechanical Services should:**

- (a) **incorporate the target equipment availability requirement and fault attendance service standard of the SLA in the general special lighting subcontract;**

- (b) **in conjunction with the Director of Highways:**
 - (i) **closely monitor the achievement of the target equipment availability requirement of the SLA and step up maintenance efforts if there is any indication that the target is not met;**

 - (ii) **immediately incorporate the omitted footbridges/subways/walkways (mentioned in paragraph 3.9) in the SLA/subcontract for providing the regular patrol service, rectify any faulty lights thereat and tighten control to prevent similar omission in future; and**

 - (iii) **tighten control to ensure that any revised service requirements of a new SLA are promptly reflected in the subcontracts;**

- (c) **remind Subcontractor A to record all key dates/times in fault attendance reports;**

- (d) **keep proper records of faulty lights found in underpasses/noise enclosures;**

- (e) **speed up rectification of faulty lights found during regular patrols; and**

- (f) **tighten control to ensure that the group replacement of lamps and cleaning of lanterns are carried out in accordance with the stipulated frequencies in the SLA.**

3.22 Audit has also *recommended* that the Director of Highways should closely monitor the equipment availability for general special lighting and consider aligning the fault attendance service standards for general special lighting in the SLA with those used in the MOM contracts for road lighting where warranted by circumstances.

Response from the Government

3.23 The Director of Electrical and Mechanical Services agrees with the audit recommendations. He has said that the following improvement measures have been/will be taken:

- (a) the EMSTF has put in place various measures to cope with the revised methodology for calculating the monthly equipment availability. The SLA requirement of 99.5% equipment availability had been met from June to September 2015;
- (b) the target equipment availability requirement and the fault attendance service standard as laid down in the SLA have been incorporated in the draft tender specifications of the upcoming general special lighting subcontract;
- (c) the 22 footbridges/subways/walkways omitted from the database and hence the regular patrol service have been added to the SLA/subcontract. The associated faulty lights have already been rectified. Besides timely updating, the EMSTF will tighten its control to prevent similar recurrences by performing a data matching among the records of the HyD, the EMSTF, and the subcontractors on a quarterly basis;
- (d) Subcontractor A was reminded in August 2015 to record all key dates/times in the fault attendance reports and it has complied with the requirement since September 2015. Besides, a mobile reporting technology that automatically logs all key dates/times will also be used in all subcontracts;
- (e) video/photo recording has been used during patrolling of underpasses/noise enclosures to assist the counting and keeping of proper records of identified faulty lights;

Operation and maintenance of special lighting

- (f) Subcontractor A has been reminded to speed up rectification of faulty lights found during regular patrols. Complicated cases involving special arrangements (such as road closure) would be brought up in time at monthly meetings between the HyD and the EMSTF if the fault remains unresolved for over one month; and
- (g) based on the EMSTF's operation experience and with the HyD's agreement, the group lamp replacement frequencies specified in the 2015 SLA had been extended by six months for most types of lamps. To ensure that group replacement of lamps and cleaning of lanterns are carried out in accordance with the stipulated frequencies in the SLA, a mobile reporting technology will be used for keeping track of the scheduled maintenance activities of all subcontractors, and the EMSTF's computerised contractor reporting system will be enhanced to ensure subcontractors' adherence to the maintenance programme.

3.24 The Director of Highways agrees with the audit recommendations. He has said that:

- (a) the HyD understands that the target equipment availability figures are affected by complicated cases. The EMSTF has agreed to bring up all these cases at monthly meetings to alert the HyD;
- (b) after the setting up of the Special Lighting Information System in 2014, the HyD has commenced to cross-check data with the EMSTF's database to ensure data accuracy. The omitted locations found by Audit (see para. 3.9) have been included for regular patrol service;
- (c) the HyD will discuss the renewal of the SLA with the EMSTF at an earlier stage so that the EMSTF can promptly incorporate any new requirements in its subcontracts; and
- (d) the HyD will closely monitor the equipment availability for general special lighting and consider aligning the fault attendance service standards for general special lighting in the SLA with those used in the MOM contracts for road lighting where warranted by circumstances.

PART 4: INSTALLATION OF PUBLIC LIGHTS

4.1 This PART examines the HyD's work on installation of public lights, focusing on the following areas:

- (a) installation of road lights (paras. 4.2 to 4.7); and
- (b) installation of village lights (paras. 4.8 to 4.20).

Installation of road lights

4.2 As mentioned in paragraph 1.6, lighting installation works are mainly carried out under the PLP approved by the PLVC annually (Note 25). At the end of each year, the HyD provides the PLVC with a situation report of the installation works completed in the year and the outstanding works to be carried out. According to the situation report of March 2015, while 2,805 road lights had been installed in 2014-15, 2,919 new road lights (1,182 under road projects and 1,737 on existing roads) approved under the PLPs for 2014-15 and before had not been installed as at 31 March 2015. As lighting installation works under road projects have to tie in with the respective project implementation which is beyond the scope of this audit, this PART focuses on installation of new lights on existing roads.

Inadequacies in monitoring long outstanding works

4.3 In early July 2015, Audit requested the Lighting Division to provide a breakdown of the 1,737 outstanding road lights mentioned in the situation report by year of approval for analysis. The HyD provided Audit with the requested information in mid-August 2015 as it was not the HyD's practice to use ageing analyses for monitoring outstanding installation works. The HyD also informed Audit that the 1,737 outstanding road lights figure stated in the March 2015 situation report was inaccurate as detailed in Table 9.

Note 25: *According to the HyD, the approved lighting installations are subject to further investigations of feasibility.*

Table 9

**Discrepancy of outstanding road light figures
in the March 2015 situation report**

PLP year	Number of outstanding road lights provided by HyD in August 2015		
	Breakdown of the March 2015 situation report (a)	Amended figures (b)	Discrepancy (c) = (a) - (b)
2010-11	33	28	5
2011-12	74	43	31
2012-13	320	321	-1
2013-14	341	328	13
2014-15	969	814	155
Total	1,737	1,534	203

Source: Audit analysis of HyD records

4.4 As shown in Table 9, as at March 2015, of the 1,534 approved road lights pending installation, 71 (5%) had been outstanding for more than three years after PLVC approval. In response to Audit's enquiries on these 71 outstanding road lights, in September 2015, the HyD said that:

- (a) **Case 1.** In accordance with the HyD's proposed lighting improvement, installation of 23 new road lights and upgrading of 5 existing road lights in Ap Lei Chau were approved in 2010-11. The lighting condition of the subject area was subsequently improved after the upgrading of 5 existing road lights in 2011 and installation of a road light under another project in 2012. The installation of the 23 new road lights was no longer required as measurements conducted in March 2014 and August 2015 had confirmed the adequacy of the lighting level;

- (b) **Case 2.** In response to a request from the Hong Kong Police Force (HKPF), for safety and security reasons, installation of 2 new road lights in a rear lane in Western District (see Photograph 7) was approved in 2010-11. Installation works were found not feasible in 2012 due to obstructions by underground utilities. The HKPF was informed of the result in August 2015;

Photograph 7

Approved lighting installation in a rear lane subsequently found not feasible



Source: Photograph taken by Audit at 7:00 pm on 22 August 2015

- (c) **Cases 3 to 7.** In response to complaints lodged by the public and requests from the HKPF, installation of 16 road lights in Aberdeen, Happy Valley and Tuen Mun was approved in 2010-11 and 2011-12. After the HyD's reviews of the five cases, 12 road lights were not required as the lighting levels were found adequate and installation of two other lights was found not feasible. As a result, only two lights would be installed; and

Installation of public lights

- (d) **Cases 8 and 9.** Upgrading of 30 road lights in various districts was approved in 2011-12 for energy saving purposes. The upgrading works of 17 road lights had been completed by June 2015. The upgrading of the other 13 road lights was found technically not feasible after the HyD's review in September 2015.

4.5 It is unsatisfactory that the 71 approved road lights to enhance the safety of road users/achieve energy saving were only dealt with after a lapse of over 3 years, i.e. completed works (17 in number), confirmed unnecessary/not feasible (52 in number) and followed-up action taken (2 in number). To prevent recurrence of similar problem, the HyD needs to step up monitoring of the progress of approved installation works by providing the PLVC with accurate situation reports and ageing analyses of the outstanding cases. Meanwhile, the HyD also needs to expedite action on the 649 road lights that had remained outstanding for over one year as at March 2015 (see Table 9 in para. 4.3).

Audit recommendations

- 4.6 **Audit has recommended that the Director of Highways should:**
- (a) **step up monitoring of the progress of lighting installation works by providing the PLVC with accurate situation reports and ageing analyses of outstanding cases; and**
 - (b) **expedite action on the 649 road lights that had remained outstanding for over one year (see Table 9 in para. 4.3).**

Response from the Government

4.7 The Director of Highways agrees with the audit recommendations. He has said that the HyD has been monitoring the progress of lighting installation works, and will continue to review and enhance the monitoring as appropriate with a view to expediting action on the 649 road lights that had been outstanding for over one year.

Installation of village lights

4.8 Apart from road lighting, the HyD is also responsible for providing village lighting in the New Territories and on outlying islands (see para. 1.6). Having regard to the manpower resources and available funding, the HyD sets an annual quota for the number of village lights to be installed under the PLP. The Lighting Division plans, designs and monitors the installation works.

4.9 According to the Village Lighting Procedure agreed between the HyD and the HAD, the HAD is responsible for coordinating applications for village lighting and according priorities to these applications. According to the HAD, if the total number of initial applications received by its District Offices exceeds the annual quota, the HAD Headquarters will distribute the quota on a pro-rata basis among the applicant districts. Upon receipt of the district quota, the District Offices will prioritise the lighting requests mainly based on the date of application (Note 26). Site meetings will be arranged with relevant parties to agree on the locations of lights and cables to be installed. Subsequently, the applications will be submitted to the PLVC for approving the installation works. A flowchart for village lighting installation is at Appendix I. Audit examination of village lighting installation works revealed room for improvement as set out in paragraphs 4.10 to 4.17.

Unmet demand for village lighting

4.10 From 2005-06 to 2015-16, the annual quotas of village lighting installation varied from 400 to 2,000 which turned out to be insufficient to meet the village lighting applications received by the District Offices. According to the HyD's database, the number of lights installed during the period (up to August 2015) was 7,205, averaging 655 per year. In 2007-08, there was a waiting list of about 3,000 village lights, mostly in Yuen Long, North District and Tai Po. District Councillors and rural leaders expressed their concerns on the slow progress. At a conference on village lights held in July 2007, some Members of the

Note 26: *According to the HAD's guidelines, individual District Office staff also take into consideration other relevant factors (such as views of rural committees and villagers and residents, utilisation of access roads and availability of lighting facilities in the vicinity) in according priorities to lighting proposals.*

Installation of public lights

Legislative Council (LegCo) requested the Government to clear the backlog of waitlisted applications in one go. The HyD implemented an accelerated programme to clear the backlog of waitlisted applications from 2008-09 to 2010-11 through redeployment of internal resources.

4.11 In 2012, the HAD informed the HyD that the number of village lighting applications waitlisted for inclusion in the PLP had built up again and requested the HyD to consider increasing the installation quota. However, in the recent four years 2012-13 to 2015-16, the annual quota had remained at 400. With an unmet demand averaging 684 village lights each year from July 2012 to June 2015, the number of waitlisted village lights for inclusion in the PLP had increased to 2,693 as at June 2015 (see Appendix J for an ageing analysis).

4.12 Even assuming no new applications, if the annual installation quota remains at 400, it may take more than 6 years to clear the backlog of 2,693 waitlisted village lights. The long waiting time for providing village lighting could increase safety risks to villagers. The HyD needs to take measures to meet the demand for village lighting in good time.

Slow progress in installing village lights

4.13 From 2005-06 to 2015-16, the PLVC approved the installation of 9,075 village lights. According to the HyD's database, as at August 2015, 7,205 (79%) of the approved lights had been installed and 1,870 (21%) were outstanding. Ageing analysis of 1,750 outstanding village lights (Note 27) showed that 822 (47%) had remained outstanding for over three years.

Audit examination

4.14 Audit sample checked 45 outstanding village light cases as at August 2015 and found that there were inadequacies in the HAD's and the HyD's follow-up actions in 21 (47%) cases:

Note 27: *Of the 1,870 outstanding village lights, 120 were replacement cases (see para. 4.17 and Note 29). They were excluded from the ageing analysis as the dates of their replacement were not recorded in the HyD's database.*

- (a) ***Cancelled/completed cases.*** In 5 (11% of 45) cases, the installation works had been completed or cancelled. Apparently, the HyD's records of outstanding works had not been kept up-to-date;

- (b) ***Long time taken by the HAD in following up approved cases.*** In 12 (27%) cases, the HAD took a long time to take follow-up actions. For example, in one case of approved village lights in 2009-10, the HAD only arranged a site meeting (see Appendix I) in December 2014 (after a lapse of five years) despite the HyD's reminder in May 2013 and a public enquiry in October 2014. In another approved case involving 13 village lights in 2009-10, a site meeting was conducted in August 2009 at which the installation locations for 4 lights were confirmed but those for the remaining 9 village lights had yet to be identified. The HAD only followed up the case again in April 2014 (after a lapse of more than four years); and

- (c) ***Delay in taking follow-up action by the HyD.*** In 4 (9%) cases, there were delays in taking follow-up actions by the HyD. In three of the four cases, as a result of the delays, a restart of the installation process from the site meeting stage was necessary. For example, in one case, after resolving local objections in 2008, the HyD requested the Lands D to post on site a one-month notice of the installation works. There was no record to show that the HyD had followed up with the Lands D on the outcome. In April 2014 (after more than five years), upon the HAD's enquiry, the HyD resumed action. However, due to the long lapse of time, another site meeting had to be conducted in November 2014.

4.15 In response to Audit's enquiry, in October 2015, the HAD said that after a review in conjunction with the HyD, the number of outstanding village lights had decreased from 1,750 in August 2015 to 1,461 in October 2015 due to the following:

- (a) 263 village lights involving unresolved local objections were identified for deletion from the PLP and should not be regarded as outstanding. Their quotas would be subject to re-prioritisation (see para. 4.17); and

Installation of public lights

- (b) the status of 26 village lights installed before August 2015 was recently updated in the HyD's database.

The status of the 1,461 outstanding lights is shown in Appendix K.

4.16 It is unsatisfactory that 553 (38%) of the 1,461 approved village lights had remained outstanding for over three years after inclusion in the PLP (see Appendix K). Of the 1,461 outstanding lights, 302 (21%) were pending arrangement of site meetings after inclusion in the PLP. This was not in accordance with the Village Lighting Procedure, which has stipulated that site meetings should be held (see Appendix I) before seeking approval from the PLVC (Note 28). The delays in providing village lighting may increase safety risks to villagers. To clear the backlog, the HyD and the HAD need to consider arranging another accelerated programme similar to that carried out from 2008-09 to 2010-11. There is also a need to step up monitoring of the progress of the approved installation works to ensure no delays in setting up site meetings and taking follow-up actions. Besides, the HyD needs to keep up-to-date the status information of approved village lighting installation works in its database.

Re-prioritisation of approved works items

4.17 The re-prioritisation of approved works items in October 2015 (see para. 4.15(a)) was the second such initiative since 2013. At a PLVC meeting held in March 2013, the HyD expressed concern on the delays of installation works due to unresolved local objections and sought the HAD's advice on whether such cases could be deleted from the PLP. However, the HAD considered that such cases should be kept in the PLP. In October 2013, the HyD requested the HAD to review cases involving unresolved local objections and cases pending site meeting without known reasons (involving 962 village lights at that time). After a review, the HAD

Note 28: *According to the HAD, it took time to set up site meetings that suited the schedule of all stakeholders, reach consensus on lighting locations and cable routes through repeated negotiations, and make arrangement for installation works by the HyD.*

and the HyD agreed in June 2014 that 215 outstanding village lights (Note 29) should be replaced by other more urgent applications in the waiting list. Similarly, after a review in October 2015, the HAD considered that the quotas for 263 lights could be re-prioritised (see para. 4.15(a)). While such re-prioritisation of the approved installation cases is conducive to better utilisation of resources in providing village lighting, there is a need to keep the PLVC informed of the changes.

Audit recommendations

- 4.18 **Audit has recommended that the Director of Highways should:**
- (a) **take measures to meet the demand for village lighting in good time;**
 - (b) **consider implementing another accelerated installation programme to clear the backlog of approved village lighting works in one go;**
 - (c) **in collaboration with the Director of Home Affairs, step up monitoring of the progress of the approved village lighting installation works to ensure that there is no delay in setting up site meetings and taking follow-up actions;**
 - (d) **keep up-to-date the status information of approved village lighting installation works in the HyD's database; and**
 - (e) **in consultation with the Director of Home Affairs, keep the PLVC informed of any re-prioritisation of the approved installation works items.**

Note 29: *Of the 215 lights, 95 had been installed and 120 were outstanding as at August 2015.*

Response from the Government

4.19 The Director of Highways agrees with the audit recommendations. He has said that:

- (a) the installation of village lights is carried out based on the available resources and the increasing number of village lights has incurred large amount of recurrent expenditure. Based on the current resources, the HyD cannot meet the demand for village lighting. The HyD will discuss with the HAD to bid for additional resources to clear the backlog as well as for the associated recurrent consequences; and
- (b) the database on village lighting installation is being modified to comprehensively monitor the different steps of village lighting installation works. The HyD will keep the PLVC informed of any changes of the approved PLP items and seek endorsement from the PLVC accordingly.

4.20 The Director of Home Affairs agrees with the audit recommendations. She has said that:

- (a) the HAD welcomes the issues highlighted in this Audit Report with a view to meeting the demand for village lighting in good time; and
- (b) the HAD will work closely with the HyD to step up monitoring of the progress of the approved lighting installation works to ensure setting up site meetings and taking follow-up actions as early as possible.

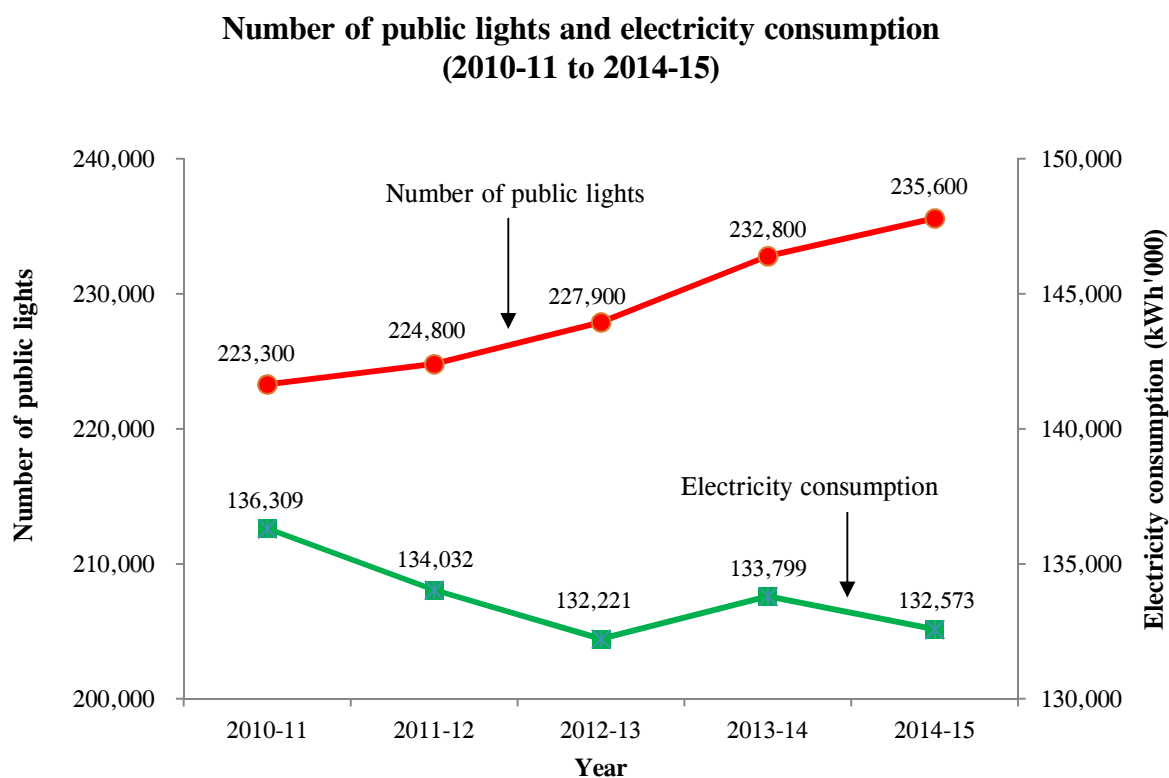
PART 5: IMPLEMENTATION OF ENERGY SAVING MEASURES

5.1 This PART examines the HyD's implementation of energy saving measures for the public lighting system.

Energy saving measures

5.2 Over the years, the HyD has made efforts to reduce energy consumption of the public lighting system. For example, the high pressure sodium lamps widely adopted in the road lighting system have attained an energy saving of about 30% as compared to the electricity consumption of road lighting equipment used in the past (see para. 1.12). From 2010-11 to 2014-15, while the number of public lights increased by 6% from 223,300 to 235,600, the electricity consumption decreased by 3% from 136.3 million kilowatt-hours (kWh) to 132.6 million kWh (see Figure 3).

Figure 3



Source: HyD records

Implementation of energy saving measures

5.3 In March 2014, the HyD reported to the LegCo Panel on Transport the implementation of the following energy saving measures:

- (a) ***Dimmable electronic ballasts*** (Note 30) ***for road lights***. There were about 20,000 road lights operated with light bulbs of wattage higher than necessary (Note 31) due to unavailability of light bulbs of appropriate wattages. Starting from 2006, the HyD had progressively installed dimmable electronic ballasts to reduce the luminosity of these lamps to save energy. The HyD anticipated that, with the installation of electronic ballasts for all these lamps, by the end of 2014, an annual saving of about 20% in electricity consumption could be achieved;
- (b) ***CDM lamps***. Given their better colour rendering (Note 32), energy saving could be achieved if CDM lamps with wattage lower than high pressure sodium lamps were used on subsidiary roads. The HyD had installed about 2,650 CDM lamps and was planning to install more in different districts and on different types of subsidiary roads to test their performance and acceptance by the public; and
- (c) ***LED lights***. Given their better colour rendering, LED lights with wattage lower than high pressure sodium lamps could be used to enhance energy saving (see Note 33). The HyD had selected certified LED lights for

Note 30: *A ballast is a device that regulates the electrical current to a lamp and the voltage to start a lamp.*

Note 31: *The wattage of a light bulb increased with discrete steps. When the luminosity required at a road section fell between two successive wattage steps, the HyD used a light bulb of higher wattage to ensure sufficient lighting, resulting in higher-than-necessary wattage in some lamps.*

Note 32: *Better colour rendering means that an object appears richer in colour and less loss in colour fidelity when illuminated by a light source with wider spectrum.*

Note 33: *LED lights are solid state semiconductor devices that convert electrical energy into visible light. They are environmentally friendly as they produce higher lighting level per watt and their service lives can be 3 to 6 times longer than compact fluorescent lamps.*

trial use to observe their actual performance (Note 34). However, the cost-effectiveness of LED lights was low (Note 35) and the time was not yet ripe to adopt LED road lighting.

5.4 In January 2015, the Chief Executive of the Hong Kong Special Administrative Region announced in his Policy Address that the Government was setting a new target of achieving a 5% saving in electricity consumption for government buildings. To support the Government's energy saving initiative, the HyD needs to step up its efforts to implement energy saving measures for the public lighting system. Against this background, Audit has reviewed the progress of the HyD in implementing energy saving measures and the results are shown in paragraphs 5.5 to 5.10.

Use of electronic ballasts

5.5 There are two types of electronic ballasts (i.e. dimmable and non-dimmable) that can save energy. As mentioned in paragraph 5.3(a), dimmable electronic ballasts can be used for light bulbs of higher wattage than necessary to reduce their luminosity. Non-dimmable electronic ballasts can be used to replace electromagnetic ballasts that have been used on non-high-speed roads (Note 36) to reduce energy loss. As at September 2015, 17,965 dimmable electronic ballasts had been installed.

5.6 *Non-compliance with requirement of installing non-dimmable electronic ballasts.* In August 2008, the Lighting Division of the HyD issued an instruction for its staff (Divisional Instruction) specifying that:

Note 34: *Up to August 2015, the HyD had installed for trial use 157 LED lights on roads and 672 LED light tubes at footbridges.*

Note 35: *According to the HyD, the unit price of medium power LED light in 2014 of about \$14,000 was 10 times higher than that of a high pressure sodium light. If an LED light was used for replacing a high pressure sodium lamp, the electricity cost saving was only about \$200 per annum. The cost-effectiveness was lower than that of the high pressure sodium lamps and CDM lamps.*

Note 36: *According to the HyD, there were limitations in the application of electronic ballasts to certain environmental conditions or types of road lights.*

Implementation of energy saving measures

- (a) failed electromagnetic ballasts on non-high-speed roads should be replaced by non-dimmable electronic ballasts; and
- (b) non-dimmable electronic ballasts should be used for new installations on non-high-speed roads.

As at August 2015, for non-high-speed roads, 3,577 road lights were provided with non-dimmable electronic ballasts while 106,481 were using electromagnetic ballasts. Audit reviewed 735 non-high-speed roads with 3,841 ballasts installed/replaced between 2009-10 and 2014-15 (i.e. after the issue of the 2008 Divisional Instruction) and found that only 792 (21%) were non-dimmable electronic ballasts (Note 37). The remaining 3,049 (79%) were still electromagnetic ballasts, not in compliance with the requirement of the 2008 Divisional Instruction. Audit noted that as at May 2015, the HyD had not incorporated the Divisional Instruction requirement in one of the three MOM contracts (i.e. the contract for New Territories West region — Note 38). The HyD needs to incorporate its Divisional Instruction requirement in MOM contracts in future and take measures to ensure its compliance.

Use of CDM lamps

5.7 According to the HyD, the use of a CDM lamp instead of a high pressure sodium lamp can achieve an energy saving of 30%. In June 2013, the Lighting Division issued a Divisional Instruction requiring the replacement of high pressure sodium lamps by CDM lamps on subsidiary roads. As there was no requirement in the MOM contracts for replacing high pressure sodium lamps with CDM lamps on subsidiary roads, works orders had to be issued to instruct the contractors to make such a replacement on a case-by-case basis. However, Audit noted that the HyD had not always done so.

Note 37: *According to the HyD, the cost of a non-dimmable electronic ballast ranged from \$312 to \$561.*

Note 38: *In October 2015, the HyD informed Audit that the requirement had been incorporated in the New Territories West MOM contract commencing in October 2015.*

5.8 In response to Audit's enquiry in September 2015, the HyD said that as the LED lighting technology grew rapidly in the last two years, the HyD slowed down the replacement of CDM lamps to see whether it could choose LED lights as a new lighting source. In view of the changed circumstances, the HyD needs to review the 2013 Divisional Instruction requirement on the use of CDM lamps on subsidiary roads and continue to monitor the latest development of LED lights for consideration of their wider application in the public lighting system.

Progress in implementing other energy saving measures

5.9 The HyD has made ongoing efforts in conducting researches and trial uses of other energy saving devices. After confirming their cost-effectiveness, the HyD's current practice is to use the energy saving devices for new lighting installations and replace damaged devices in existing installations. The progress in implementing these energy saving measures is summarised below:

- (a) *Use of non-illuminated retro-reflective traffic bollards (NRTBs) to replace ITBs.* Since 2006, the HyD had put on trial use of NRTBs (see Photograph 8) to replace ITBs (see Photograph 1(c) in para. 1.2). An evaluation in January 2015 confirmed that replacing ITBs by NRTBs could achieve energy and cost savings (Note 39). According to the HyD, to avoid unnecessary disposal of existing ITBs, NRTBs would be used for new installations and replacing damaged ITBs at suitable locations (Note 40). As at April 2015, of the 10,820 traffic bollards installed, 9,900 (91%) were ITBs and 920 (9%) were NRTBs;

Note 39: *An ITB is illuminated by an internal light source for its body to be seen conspicuously at night time. It is susceptible to traffic collisions resulting in high damage rate and high maintenance cost. An NRTB is installed with a retro-reflective sign plate to render its legibility at night. Its design incorporates a spring assembly to return the sign plate to its upright position after collisions so as to reduce the repair cost. As an NRTB does not require electricity to operate, there would be an energy saving of approximately \$120 per annum for each ITB replaced.*

Note 40: *These included slip road junctions, refuge islands, and rear sides of refuge islands at T-road junctions and cross-road junctions. NRTBs were not suitable for locations where drivers could not see the signage at a reasonable stopping distance.*

Photograph 8

A non-illuminated retro-reflective traffic bollard



Source: Photograph taken by Audit at 8:00 am on 4 September 2015

- (b) **Replacement of T8 fluorescent tubes by T5 fluorescent tubes at footbridges and subways.** According to the EMSD, the use of T5 fluorescent tubes to replace T8 fluorescent tubes could achieve an energy saving of 20% to 30%. Since 2010-11, the HyD had proposed works in the PLPs for replacing deteriorating T8 fluorescent tubes with T5 fluorescent tubes for footbridges and subways. As at April 2015, of the 38,385 fluorescent tubes installed at footbridges and subways, 31,518 (82%) were T8 fluorescent tubes and 6,867 (18%) were T5 fluorescent tubes; and

- (c) ***Implementation of energy saving improvement works at footbridges.*** In August 2011, after a review of the lighting levels of footbridges, the HyD's Consultant recommended energy saving optimisation schemes for 318 footbridges. In September 2011, the Lighting Division issued a Divisional Instruction specifying the need for lowering a lighting class (Note 41) for most of the new footbridges and footbridges requiring light reinstallation. Up to August 2015 (about 4 years later), the HyD had implemented energy saving measures for 135 (42%) of the 318 footbridges (Note 42).

5.10 ***Need to review the pace of adopting energy saving devices.*** According to the HyD's practice, the HyD will adopt energy saving devices for new installations and replacing failed or damaged devices (see para. 5.9). While this practice can avoid unnecessary disposal of existing devices, it takes a longer time to realise the benefits of the energy saving devices. For example, only 18% of the T8 fluorescent tubes were replaced by T5 fluorescent tubes after a lapse of 5 years (see para. 5.9(b) and item (B) of Table 8 in para. 3.20). The HyD needs to consider conducting a review of the cost-effectiveness of speeding up the use of energy saving devices in the public lighting system, especially when the existing devices are approaching the end of their service lives.

Audit recommendations

- 5.11 **Audit has recommended that the Director of Highways should:**
- (a) **take measures to ensure that the MOM contractors comply with the 2008 Divisional Instruction requirement on replacing electromagnetic ballasts by non-dimmable electronic ones;**

Note 41: *According to the Instruction, there are four lighting classes for covered footbridges, ranging from 30 lux to 100 lux, and the lighting level requirements for some footbridges are revised to attain energy saving. For example, for covered footbridges in urban or new town areas with relatively open structural form, the minimum illuminance required has been reduced from 60-80 lux to 60 lux.*

Note 42: *These included installation of dimmable electronic ballasts, replacement of T8 fluorescent tubes by T5 fluorescent tubes and LED tubes, and reducing the number of lamps at footbridges.*

Implementation of energy saving measures

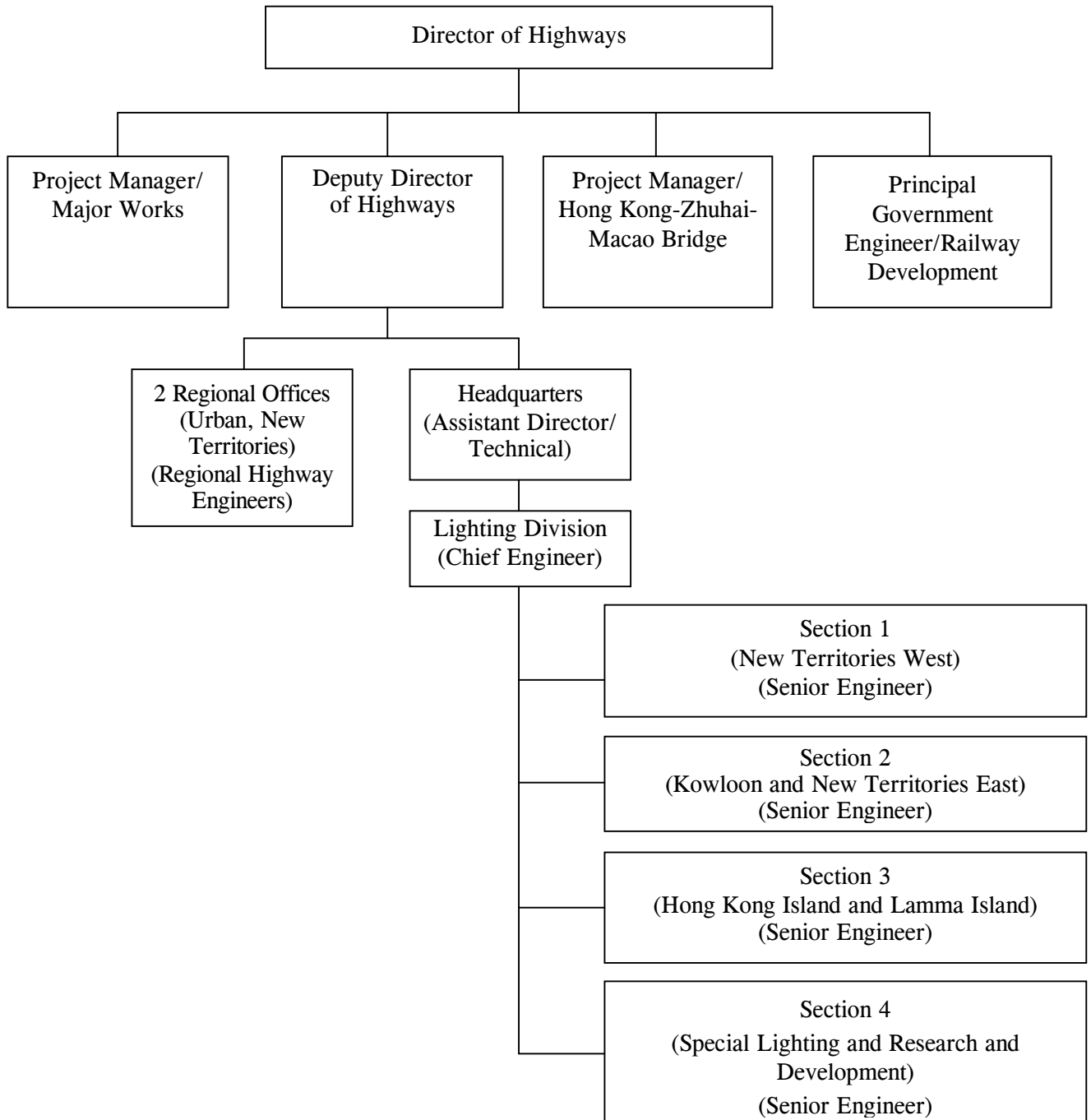
- (b) review the 2013 Divisional Instruction on the use of CDM lamps on subsidiary roads and continue to monitor the latest development of LED lights for consideration of their wider application in the public lighting system; and**
- (c) consider conducting a review of the cost-effectiveness of speeding up the use of energy saving devices, especially when the existing devices are approaching the end of their service lives.**

Response from the Government

5.12 The Director of Highways agrees with the audit recommendations. He has said that:

- (a) the HyD will continue to keep abreast of the latest technology and market development of LED lights for consideration of their wider application in the public lighting system; and
- (b) to avoid creating unnecessary waste and to ensure the quality and safety of new products, the HyD has been conducting a cost-and-benefit analysis and a series of trials before implementing an energy saving measure. Capital cost, maintenance cost and electricity saving will be considered in the analysis. The HyD will keep abreast of the latest technology and market trends and review the cost and benefit of energy saving measures from time to time.

**Highways Department:
Organisation chart (extract)
(30 June 2015)**



Source: HyD records

**HyD's night inspections for New Territories West region
(July 2014 to June 2015)**

Month	Routes not inspected out of a total of 27 routes		Lighting points not inspected out of a total of 46,576 lighting points	
	(Number)	(%)	(Number)	(%)
July 2014	4	14.8%	7,901	17.0%
August 2014	0	—	0	—
September 2014	2	7.4%	4,177	9.0%
October 2014	2	7.4%	4,485	9.6%
November 2014	5	18.5%	9,153	19.7%
December 2014	3	11.1%	7,087	15.2%
January 2015	0	—	0	—
February 2015	2	7.4%	4,851	10.4%
March 2015	1	3.7%	3,006	6.5%
April 2015	6	22.2%	11,812	25.4%
May 2015	4	14.8%	5,519	11.8%
June 2015	4	14.8%	6,616	14.2%

Source: Audit analysis of HyD records

**Ageing analysis of lighting columns
 without annual inspection
 (30 April 2015)**

Years without annual inspection	Number of lighting columns	
Over 1 year to less than 2 years	7,577	(82%)
2 years to less than 3 years	786	(8%)
3 years to less than 4 years	201	} 941 (10%)
4 years to less than 5 years	172	
5 years or more	568	
Total	9,304	(100%)

**Ageing analysis of lanterns
 without bi-annual cleaning
 (30 April 2015)**

Years without bi-annual cleaning	Number of lanterns	
Over 0.5 year to less than 1 year	8,907	(87%)
1 year to less than 2 years	792	(8%)
2 years to less than 3 years	295	} 561 (5%)
3 years to less than 4 years	88	
4 years to less than 5 years	11	
5 years or more	167	
Total	10,260	(100%)

Source: Audit analysis of HyD records

**Ageing analysis of low wattage
high pressure sodium lamps not replaced
within the stipulated cycle
(30 April 2015)**

Service time in excess of the 2-year replacement cycle	Number of lamps
Over 2 years to less than 3 years	671 (8%)
3 years to less than 4 years	4,566 (57%)
4 years to less than 5 years	360 (5%)
5 years or more	2,360 (30%)
Total	7,957 (100%)

**Ageing analysis of fluorescent lamps not replaced
within the stipulated cycle
(30 April 2015)**

Service time in excess of the 16-month replacement cycle	Number of lamps
Over 16 months to less than 3 years	10 (7%)
3 years to less than 4 years	30 (22%)
4 years to less than 5 years	17 (13%)
5 years or more	79 (58%)
Total	136 (100%)

Source: Audit analysis of HyD records

**Analysis of discrepancies in lamppost locations
(31 December 2014)**

Discrepancy between the lamppost locations recorded in the PLIS and the GeoInfo Map	Number of lampposts
Over 3 metres but no more than 10 metres	10,102 (79%)
Over 10 metres but no more than 20 metres	1,260 (10%)
Over 20 metres but no more than 100 metres	583 (5%)
Over 100 metres but no more than 1,000 metres	122 (1%)
Over 1,000 metres	684 (5%)
Total	12,751 (100%)

Source: Audit analysis of HyD records

**PLIS records of gantry sign and roadside directional
 sign lighting found with missing data
 (30 April 2015)**

Required data found missing	Number of incomplete records (% of total 1,617 records) (Note)
Location	46 (3%)
Number of lamps	147 (9%)
Mounting height	463 (29%)
Transport Department Reference number	518 (32%)
Utility number	1,529 (95%)

Source: Audit analysis of HyD records

Note: Of the 1,617 records, 1,580 (98%) were found with one or more of the required data missing.

**Monthly equipment availability of special lighting
(April 2014 to March 2015)**

Month	Monthly equipment availability using the original formula	Monthly equipment availability using the revised methodology (Note 1)
Apr 2014	99.9%	98.9%
May 2014	99.9%	98.7%
Jun 2014	99.8%	98.8%
Jul 2014	99.8%	99.0%
Aug 2014	99.9%	99.0%
Sep 2014	99.9%	99.0%
Oct 2014	99.9%	99.2%
Nov 2014	99.9%	99.3%
Dec 2014	100.0%	} Note 2 99.3%
Jan 2015	100.0%	
Feb 2015	100.0%	
Mar 2015	100.0%	

Source: EMSTF and HyD records

Note 1: The number of faulty lights used for calculating the availability excluded those found in underpasses/noise enclosures as such information was not available (see para. 3.17).

Note 2: The figures were rounded up to 100% as the reported numbers of faulty lamps for these months were not significant.

**Faulty lights identified by Subcontractor A
pending rectification
(June 2015)**

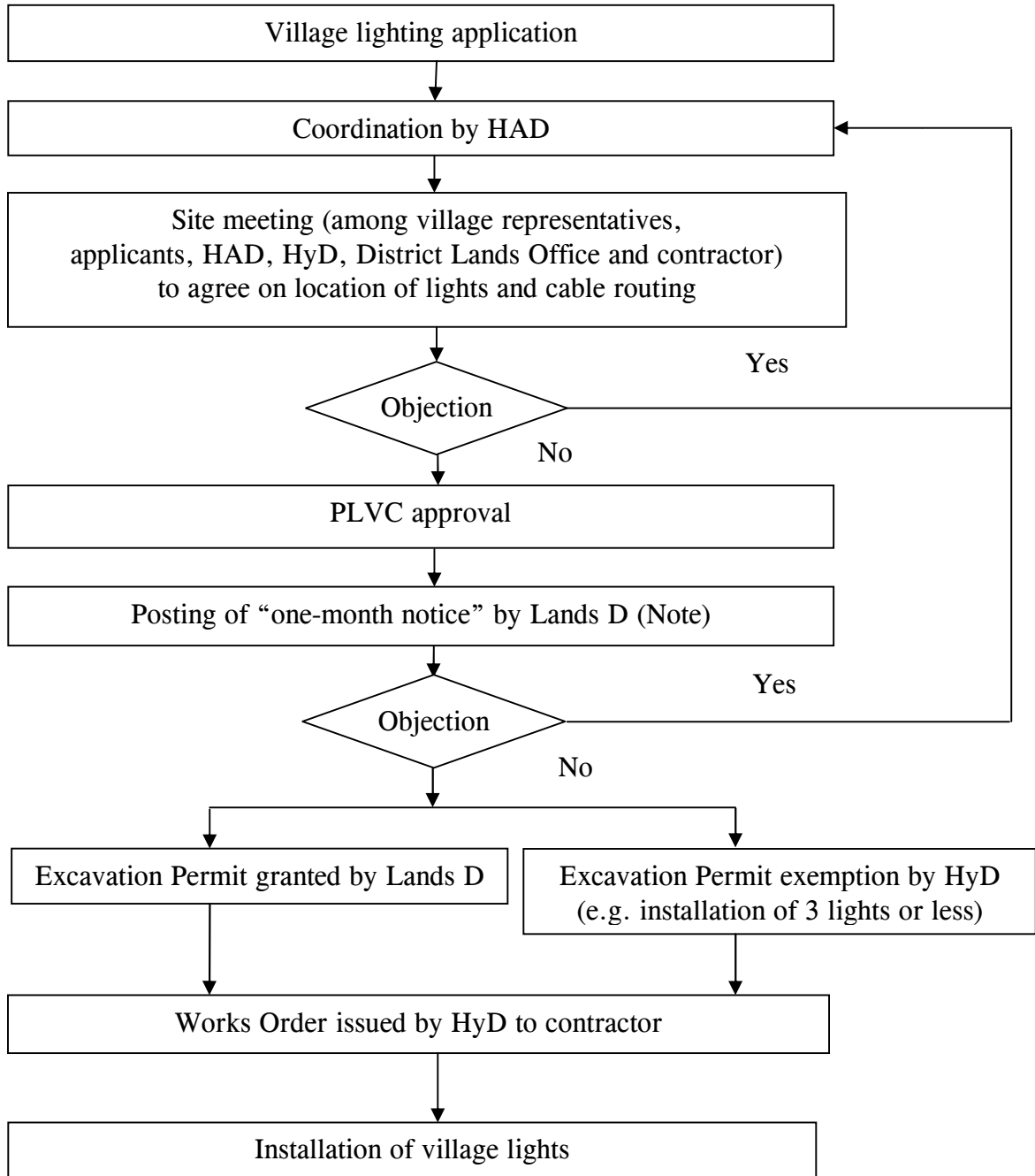
Item No.	Location	No. of faulty lights reported but not yet rectified as at June 2015	Explanations provided by EMSTF in September 2015 for not carrying out the rectification works
1	Tram shelter at junction of Ice House Street and Des Voeux Road Central	9 (since Jan 2014)	Repair works were obstructed by advertisement signs requiring temporary relocation by the tram company.
2	Walkway at junction of Chater Road and Ice House Street	70 (since May 2013)	} Repair works would require replacement of underground cables.
3	Walkway near Pedder Street	16 (since May 2013)	
4	Walkway near Chater Road	70 (since May 2013)	
5	Walkway near Ice House Street	12 (since Mar 2014)	
6	Walkway near Connaught Road Central	90 (since May 2013)	
7	Tram shelter at junction of Foo Ming Street and Percival Street	9 (since Apr 2014)	Repair works were completed in July 2015.
8	Footbridge across Salisbury Road, Tsim Sha Tsui East Footbridge No. 2	>10 (since Mar 2014)	The footbridge had recently been renovated by the contractor of the Works Division of the HyD and it was still under the defects liability period. (However, there was no evidence that the HyD's contractor had been informed to take follow-up action.)

Appendix H
(Cont'd)
(para. 3.17(a) refers)

Item No.	Location	No. of faulty lights reported but not yet rectified as at June 2015	Explanations provided by EMSTF in September 2015 for not carrying out the rectification works
9	Footbridge across Salisbury Road, Tsim Sha Tsui East	> 10 (since Dec 2013)	Same as item 8.
10	Subway across Prince Edward Road, San Po Kong	> 10 (since Apr 2014)	Repair works would require replacement of underground cable.
11	Tram shelter at junction of Jubilee Street and Des Voeux Road Central	9 (since Jan 2014)	Repair works were obstructed by advertisement signs requiring temporary relocation by the tram company.
12	Footbridge across Fleming Road	2 (since May 2013)	There were obstructions by other works in progress.
13	Footbridge near Pak Wo Road	8 (since May 2013)	There were obstructions by other works in progress.
	Total	> 325	

Source: Audit analysis of EMSTF records

Flowchart for village lighting installation



Source: Audit analysis of HyD records

Note: While the Public Lighting Ordinance empowers the Director of Highways to install lighting on both public and private roads, the present procedure is to post a notice on site to inform land owners and residents who will be affected by the installation works so that they may raise objections for the Government’s consideration.

**Ageing analysis of village lights on the waiting list
(30 June 2015)**

District	No. of waitlisted lights with applications submitted				Total no. of waitlisted lights as at 30.6.2015 (e)=(a)+(b)+(c)+(d)
	before 30.6.2012 (a)	between 1.7.2012 and 30.6.2013 (b)	between 1.7.2013 and 30.6.2014 (c)	between 1.7.2014 and 30.6.2015 (d)	
Yuen Long	246	238	195	243	922
North District	156	141	153	133	583
Tai Po	0	74	173	146	393
Islands	59	74	56	34	223
Sai Kung	71	36	57	37	201
Tuen Mun	43	63	36	40	182
Tsuen Wan	37	20	16	17	90
Sha Tin	30	11	19	17	77
Kwai Tsing	0	2	8	8	18
Eastern	0	0	2	2	4
Total	642	659	715	677	2,693 (Note)

Source: HAD records

Note: Apart from these 2,693 lights requested by the HAD, there were 9 lights requested by other parties and 59 installed lights due for replacement. Taken together, the total number of waitlisted village lights was 2,761 as at 30 June 2015.

**Status of outstanding village lighting installation works
(12 October 2015)**

Year	Status of village lights per HyD and HAD records							
	Pending site meeting	Under design and action by HyD	Under liaison by HAD	Under objection / site constraints	Under action by Lands D	Works in progress	Idle (Note 1)	Total
2005-06	0	0	0	1	2	0	0	3
2006-07	0	12	1	2	0	1	0	16
2007-08	0	3	4	4	1	0	1	13
2008-09	0	2	40	37	0	14	3	96
2009-10	12	7	3	140	16	12	16	206
2010-11	8	8	12	52	19	7	1	107
2011-12	31	0	35	34	4	4	4	112
2012-13	9	1	22	24	9	14	0	79
2013-14	6	1	31	28	6	39	0	111
2014-15	42	2	38	13	39	124	0	258
2015-16	194	34	170	43	15	4	0	460
Total	302	70	356	378	111	219	25	1,461 (Note 2)

553

Source: HyD and HAD records

Note 1: This represented village lights that were without follow-up action taken by the HAD.

Note 2: The 1,461 outstanding village lights were related to 510 approved applications.

Acronyms and abbreviations

Audit	Audit Commission
CDM	Ceramic Discharge Metal Halide
EMSD	Electrical and Mechanical Services Department
EMSTF	Electrical and Mechanical Services Trading Fund
HAD	Home Affairs Department
HKPF	Hong Kong Police Force
HyD	Highways Department
ITB	Illuminated traffic bollard
kWh	Kilowatt-hours
Lands D	Lands Department
LED	Light Emitting Diode
LegCo	Legislative Council
MOM contract	Management-operation-maintenance contract
NRTB	Non-illuminated retro-reflective traffic bollard
PLCMS	Public Lighting Control and Monitoring System
PLIS	Public Lighting Information System
PLP	Public Lighting Programme
PLVC	Public Lighting Vetting Committee
SLA	Service Level Agreement

CHAPTER 9

Social Welfare Department

Support for Self-reliance Scheme

**Audit Commission
Hong Kong
27 October 2015**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 65 of the Director of Audit contains 10 Chapters which are available on our website at <http://www.aud.gov.hk>

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SUPPORT FOR SELF-RELIANCE SCHEME

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SUPPORT FOR SELF-RELIANCE SCHEME

Executive Summary

1. The Comprehensive Social Security Assistance (CSSA) Scheme is administered by the Social Welfare Department (SWD). It provides cash assistance to people who cannot support themselves financially. In 2014-15, CSSA payments made by the SWD totalled \$20.7 billion, \$1.2 billion of which were related to unemployment cases. To encourage and assist employable CSSA recipients to secure employment and achieve self-reliance, the SWD has since June 1999 implemented the Support for Self-reliance (SFS) Scheme. Before January 2013, the SFS Scheme included various employment assistance programmes. In January 2013, the SWD integrated the various employment assistance programmes into an Integrated Employment Assistance Programme for Self-reliance (IEAPS). The IEAPS provides four categories of services to employable CSSA recipients, namely, Ordinary Employment Assistance Services for unemployed persons (Category I services), Strengthened Employment Assistance Services for selected recipients of Category I services (Category II services), New Dawn Project Services for single parents and child carers (Category III services), and Special Training and Enhancement Programme for unemployed youths (Category IV services). Currently, 26 non-governmental organisations (NGOs) operate 41 projects under the IEAPS to provide these services, with each project serving specified districts. The cost of commissioning the NGOs was about \$95 million a year. The Audit Commission (Audit) has recently conducted a review of the SWD's administration of the SFS Scheme.

Monitoring and reporting on achievement of Scheme objectives

2. *Monitoring achievement of Scheme objectives.* In reporting the effectiveness of the SFS Scheme to the Legislative Council (LegCo) in 2001, the Government indicated that the CSSA unemployment caseload was the target of the Scheme. There had been a downward trend in CSSA unemployment cases since 2003. However, there were still 17,505 CSSA unemployment cases as at June 2015, representing about three times the 6,074 cases as at June 1995. The SWD should continue to monitor the number of unemployment cases. For evaluation of IEAPS projects, the SWD has built in a monitoring mechanism. The SFS Scheme participants' job-securing rate and off-CSSA-net rate are two useful indicators. There are merits in closely monitoring the two rates. In particular,

Executive Summary

Audit findings revealed lower job-securing rate and off-CSSA-net rate in some IEAPS projects (see para. 9 below). Audit also noted that, for evaluating the effectiveness of the SFS Scheme, there were a number of limitations in the SWD's computer information system, rendering it difficult for the SWD to conduct comprehensive data analysis of the profile of Scheme participants (paras. 2.2 to 2.13).

3. ***Need for regular performance reporting.*** The SWD has set performance requirements (e.g. minimum job-securing rates) on each category of services under the IEAPS. The effective operation of the Scheme helps reduce public expenditure on CSSA. However, the SWD has not released the performance targets or indicators for the services to report on the overall performance of the Scheme (para. 2.17).

4. ***Need to ensure a proper basis for assessing and reporting performance.*** In March 2015, in respect of questions raised in the LegCo Finance Committee's examination of the 2015-16 Estimates, the SWD provided data on the job-securing rate and off-CSSA-net-rate of 30,997 CSSA recipients who newly joined the IEAPS during January 2013 to December 2014. Audit noted that there were some other 20,000 CSSA recipients who had been enrolled in the previous programmes and were transferred to receive employment assistance under the IEAPS when it commenced in January 2013. The SWD should have included them in the total number of IEAPS participants in order to properly assess and report the performance of the IEAPS under the SFS Scheme (paras. 2.18 to 2.20).

Commissioning non-governmental organisations to provide employment assistance services

5. ***Commissioning the same NGOs to operate the extended IEAPS.*** The contracts for 41 IEAPS projects covering the period January 2013 to March 2015 were awarded to 26 NGOs using the "quality-based allocation system". Under the system, the SWD invited NGOs to operate the IEAPS projects at fixed contract sums. It received 105 project proposals from 32 NGOs, and selected 41 project proposals from 26 NGOs for awarding contracts. In January 2015, the SWD invited the same 26 NGOs to continue running the IEAPS projects till March 2017. Contracts for the extended IEAPS were subsequently awarded to the 26 NGOs.

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There were no records indicating that the SWD had evaluated the overall performance of the 26 NGOs in a comprehensive manner before inviting them. Audit findings also revealed relatively poorer performance of some NGOs (see para. 9 below) (paras. 3.4, 3.6 and 3.7).

6. *Unused service capacity for Category I and III services.* The IEAPS contracts specified the required service capacity (in terms of the number of service recipients) for each project. From January 2013 to March 2015, only 61% of the total service capacity of Category I services and 70% of that of Category III services were used. According to the contracts, the SWD may require NGOs to provide additional services if the number of service recipients is under 90% of the service capacity. However, the SWD had not adequately done so (paras. 3.14, 3.16 and 3.20).

Provision of employment assistance services

7. *Projects not meeting contract requirements.* Classroom training and work exposure services are two key components of Strengthened Employment Assistance Services (Category II services) for selected unemployed persons (e.g. those with low employability due to low motivation). The IEAPS contracts specified the total number of classroom training hours and work exposure service sessions required to be provided by NGOs. Audit noted that, for the 41 projects in January 2013 to March 2015, the total shortfall for classroom training was 10,716 hours (6% of total requirement) and that for work exposure services was 151,188 sessions (23% of total requirement). It is important that the provision of Category II services is maximised to help enhance the employability of the largest possible number of unemployed CSSA recipients (paras. 4.3 to 4.5 and 4.11).

8. *Need to enhance actions to address the risk of abuse.* From a review of 90 cases, Audit noted a number of occasions on which service recipients had been exempted from attending activities of service programmes because they had claimed that they were taking up casual employment on the same day. However, there were no records indicating that the SWD or the NGOs had considered the risk of abuse and taken action to verify such claims. Audit also noted incidents of insufficient evidence used to support exemption for reasons other than casual employment (e.g. not providing sick leave certificates in accordance with the requirement) (paras. 4.15 and 4.17).

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Monitoring and evaluating project performance

9. *Some projects had lower job-securing rates.* Audit noted that during January 2013 to March 2015, some projects did not meet the performance requirements specified in the IEAPS contracts. In particular, four projects in Category I and II services had job-securing rates less than 15%, compared with the required minimum of 20% (for Category I services) specified in the IEAPS contracts. Moreover, four projects in Category III services had job-securing rates less than 20%, compared with the required minimum of 40%. Notwithstanding the poorer performance of some projects, all the NGOs were commissioned by the SWD to continue operating their projects after expiry of the original IEAPS contracts (see para. 5 above) (para. 5.6).

10. *Non-compliance with SWD procedural guidelines.* Audit examination of the files and records of three IEAPS projects revealed instances of non-compliance with the SWD procedural guidelines (e.g. service recipients did not attend at least two work exposure service sessions per week as required). The non-compliance could reduce the effectiveness of the IEAPS (paras. 5.12 and 5.13).

Audit recommendations

11. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has recommended that the Director of Social Welfare should:**

Monitoring and reporting on achievement of Scheme objectives

- (a) **continue to monitor the number of CSSA unemployment cases and IEAPS participants' job-securing rate and off-CSSA-net rate (para. 2.15(a));**
- (b) **explore ways to conduct regular analysis of the profile of SFS Scheme participants more efficiently for evaluating the Scheme effectiveness (para. 2.15(b));**
- (c) **report the performance targets and indicators for the SFS Scheme, and review the proper basis for assessing and reporting performance of the IEAPS (para. 2.22);**

Executive Summary

Commissioning NGOs to provide employment assistance services

- (d) **commission NGOs to provide welfare services on a competitive basis, taking into account NGOs' past performance (para. 3.10);**
- (e) **critically review the methodology for setting service capacity for IEAPS contracts, and put any unused capacity to gainful use (para. 3.23(a) and (b));**

Provision of employment assistance services

- (f) **take effective measures to help NGOs meet the requirements on classroom training hours and work exposure service sessions as specified in the contracts, and tighten the monitoring of their provision of these services (para. 4.12(a) and (c));**
- (g) **take measures to ensure that staff of the SWD and the NGOs adequately verify service recipients' justifications for not attending activities under the IEAPS having regard to the risk of abuse (para. 4.21(a));**

Monitoring and evaluating project performance

- (h) **pay particular attention to IEAPS projects having relatively poorer performance, ascertain the underlying reasons and take appropriate measures to improve their performance (para. 5.10(b)); and**
- (i) **regularly remind NGOs of the need to comply with the SWD procedural guidelines and conduct more sample checks on compliance (para. 5.14).**

Response from the Government

12. The Director of Social Welfare agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Comprehensive Social Security Assistance Scheme

1.2 The Comprehensive Social Security Assistance (CSSA) Scheme is administered by the Social Welfare Department (SWD). It provides cash assistance to people who cannot support themselves financially to meet basic needs. An applicant must pass both income and asset tests. If an applicant is living with any other family members, the application must be made on a family basis, and the total income and assets of all family members are taken into account in determining the family's eligibility for assistance.

1.3 The amount of cash assistance is determined on a case-by-case basis to meet basic needs, as follows:

- (a) ***Single person cases.*** The SWD assesses the recognised needs of the applicant to determine the maximum amount of cash assistance. The actual amount of cash assistance is the maximum amount less his assessable income (see para. 1.7(c)). If his assessable income is equal to or greater than the maximum amount, the applicant is not eligible for CSSA; and
- (b) ***Family cases.*** The SWD assesses the recognised needs of the family to determine the maximum amount of cash assistance. The actual amount of cash assistance is the maximum amount less the total assessable income of all family members (see para. 1.7(c)). If the total assessable income of all family members is equal to or greater than the maximum amount, the family is not eligible for CSSA.

1.4 ***Classification of CSSA cases.*** The SWD classifies CSSA cases by nature of case (i.e. the main reason for the individual or family to apply for CSSA). For consistency of classification, it has established a set of rules for determining the nature of each case. For example, for a three-member family comprising the

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unemployed applicant (Note 1), his wife who is disabled and his father aged 65, the SWD will classify the case as an unemployment case because the breadwinner of the family is unemployed. For a two-member single-parent family comprising the mother and her unemployed son aged below 18 and not receiving full-time education, the SWD will classify the case as a single parent case. As at 31 March 2015, there were 251,099 CSSA cases, 18,021 (7%) of which were classified as unemployment cases. In 2014-15, CSSA payments made by the SWD totalled \$20.7 billion, \$1.2 billion (6%) of which were related to unemployment cases. Table 1 shows the details.

Table 1

CSSA cases and payments classified by nature of case

Nature of case	No. of cases as at 31 March 2015	Payment in 2014-15 (\$ million)
Old age	148,664 (59%)	11,594 (56%)
Single parent	29,284 (12%)	3,107 (15%)
Ill health	24,754 (10%)	2,205 (11%)
Permanent disability	18,221 (7%)	1,492 (7%)
Unemployment	18,021 (7%)	1,218 (6%)
Low earnings	7,302 (3%)	715 (3%)
Others	4,853 (2%)	338 (2%)
Total	251,099 (100%)	20,669 (100%)

Source: SWD records

Note 1: A CSSA recipient is classified as “unemployed” if he works less than 120 hours a month or his monthly earnings are below the prescribed level set by the SWD (currently \$2,010).

1.5 ***Number of CSSA recipients.*** As at 31 March 2015, the 251,099 CSSA cases involved 159,075 (63%) single person cases and 92,024 (37%) family cases. As the 92,024 family cases involved a total of 218,385 persons (2.4 persons per family on average), there were in total 377,460 CSSA recipients (159,075 + 218,385).

Support for Self-reliance Scheme

1.6 As at 31 March 2015, there were 18,021 CSSA unemployment cases (see para. 1.4). Before June 1999, unemployed CSSA recipients were only required to register with the Labour Department for employment assistance and call at the SWD monthly to declare their employment status. The SWD has since June 1999 implemented the Support for Self-reliance (SFS) Scheme, aiming at encouraging and assisting employable CSSA recipients to secure employment and achieve self-reliance.

1.7 ***SFS Scheme between June 1999 and December 2012.*** Prior to January 2013, the Scheme consisted of three components:

- (a) ***Employment assistance programmes.*** Initially, SWD staff operated an employment assistance programme to help unemployed CSSA recipients access information on job vacancies and employment-related services and to monitor their personalised action plans to find work. Starting 2001, the SWD had also commissioned non-governmental organisations (NGOs) to operate special employment assistance programmes for different categories of CSSA recipients. With effect from October 2008, NGOs operated all employment assistance programmes, comprising the Integrated Employment Assistance Scheme for unemployed persons, the New Dawn Project for single parents and child carers, and the Special Training and Enhancement Programme for unemployed youths;
- (b) ***Community work programme.*** SWD staff arranged unpaid community work (e.g. cleaning of country parks) to help unemployed CSSA recipients build up their self-esteem and work habit, and prepare for rejoining the workforce; and

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- (c) ***Disregarded earnings arrangement.*** A certain amount of earnings from employment was not regarded as income in calculating the actual amount of cash assistance (see para. 1.3). This ensured that CSSA recipients who worked were financially better off than those who did not work (Note 2), encouraging them to find jobs and remain in employment.

1.8 ***SFS Scheme since January 2013.*** With effect from January 2013, the Scheme consists of two components:

- (a) ***Integrated Employment Assistance Programme for Self-reliance (IEAPS).*** In January 2013, the SWD integrated the various employment assistance programmes (see para. 1.7(a)) and the community work programme (see para. 1.7(b)) into the IEAPS. The services provided under the IEAPS are detailed in paragraphs 1.9 to 1.12; and
- (b) ***Disregarded earnings arrangement.*** As before, a certain amount of earnings from employment is not regarded as income in calculating the actual amount of cash assistance (see para. 1.7(c)).

Services provided under the IEAPS

1.9 The IEAPS was first launched in January 2013 for 27 months till March 2015, with 26 NGOs commissioned to provide one-stop integrated employment assistance services to employable CSSA recipients on a family basis. In April 2015, the SWD extended the IEAPS for 24 months till March 2017, commissioning the same 26 NGOs to provide the services.

1.10 There are currently 41 projects operated by the 26 NGOs under the IEAPS, with each project responsible for serving CSSA recipients within specified districts in Hong Kong. Each of the 26 NGOs runs one to four projects.

Note 2: *For example, if the maximum amount of cash assistance for a CSSA recipient is \$6,000 per month, his monthly earnings from employment are \$5,000 and the disregarded earnings are \$2,500, the actual amount of cash assistance is \$3,500 [i.e. \$6,000 – (\$5,000 – \$2,500)]. His total monthly income of \$8,500 (i.e. \$5,000 + \$3,500) is more than the maximum amount of cash assistance of \$6,000 that will be received if he does not work and relies entirely on CSSA.*

1.11 There are four categories of services under the IEAPS, catering to different CSSA recipients (see Table 2). Category I to III services are provided under each of the 41 projects. Category IV services are provided under 10 projects only because of the smaller number of target service recipients.

Table 2

Services provided under the IEAPS

Category	CSSA recipients required to receive services	Key services provided
I	<p>Unemployed persons</p> <ul style="list-style-type: none"> • Aged 15 to 59 • Able-bodied • Including single parents or child carers whose youngest child is aged above 14 	<p><i>Ordinary Employment Assistance Services</i></p> <p>(a) Regular work plan interviews (twice a month for persons aged below 50 and once a month for persons aged 50 or above) to help set up plans to actively seek full-time paid employment and obtain information on labour market, and to review efforts in job search</p> <p>(b) Direct job matching services</p> <p>(c) Post-employment support to help sustain full-time paid employment</p>
II	<p>Unemployed persons</p> <ul style="list-style-type: none"> • Assessed and selected by NGOs from Category I service recipients (e.g. service recipients with low employability due to low motivation and educational attainment) 	<p><i>Strengthened Employment Assistance Services</i></p> <p>(a) Ordinary employment assistance services (see Category I services above)</p> <p>(b) A maximum of 20 hours of classroom or small group training/session on basic social/soft skills (e.g. communication and stress management) and job seeking and related skills (e.g. interviewing techniques and application letter writing)</p> <p>(c) One to three phases (168 hours per phase) of work exposure on outdoor or indoor tasks in different settings (e.g. gardening, counter service, clerical work, job attachment and voluntary work), including training, briefing, orientation, debriefing or review sessions</p>

Introduction

Table 2 (Cont'd)

Category	CSSA recipients required to receive services	Key services provided
III	<p>Single parents and child carers</p> <ul style="list-style-type: none"> • Aged 15 to 59 • Able-bodied • Youngest child aged 12 to 14 <p>(Single parents and child carers whose youngest child is aged below 12 are not required to participate in the SFS Scheme. For single parents and child carers whose youngest child is aged 12 to 14, they may choose to be sanctioned with a deduction of \$200 CSSA payment per month instead of receiving the services.)</p>	<p><i>New Dawn Project Services</i></p> <ul style="list-style-type: none"> (a) Regular interviews (at least once a month) to help set up plans to actively seek jobs and obtain information on labour market and other support services (b) Direct job matching services (c) Provision of information on after-school-care arrangement (d) A maximum of 20 hours of classroom or small group training/session on basic social/soft skills and job seeking and related skills (e) Job attachment and voluntary work on a need basis to enhance employability (f) Post-employment support to help sustain paid employment
IV	<p>Unemployed youths</p> <ul style="list-style-type: none"> • Selected by SWD and NGOs from Category I service recipients • Aged 15 to 29 <p>(The NGOs are required to provide the services to selected youths for not less than nine months.)</p>	<p><i>Special Training and Enhancement Programme</i></p> <ul style="list-style-type: none"> (a) Structured motivational/disciplinary training (e.g. adventure training, wild camping, hiking, mountaineering and military training) (b) Training/coaching/activity sessions such as small group sharing, workshop or job-related training class at least once every two weeks (c) Job search guidance, job attachment services and job matching services (d) Post-placement support to help sustain full-time paid employment/return to mainstream schooling

Source: SWD records

1.12 Unemployed persons and single parents and child carers on CSSA are required to receive the services under the IEAPS until they have:

- (a) (for unemployed persons) found paid employment with working hours not less than 120 per month and earnings not less than the prescribed level set by the SWD (currently \$2,010); or
- (b) (for single parents and child carers) found paid employment with working hours not less than 32 per month.

According to the SWD, the types of occupation secured by IEAPS participants mostly included labourer, waiter/waitress, salesperson, cleaner and watchman/guard.

SWD's administration of the SFS Scheme

1.13 The SWD's Social Security Field Units and SFS Section are responsible for the administration of the SFS Scheme, as follows:

- (a) ***Social Security Field Units.*** At present, there are 41 Social Security Field Units located in different districts (Note 3). They process and manage CSSA cases, among others, including referring CSSA recipients to NGOs for employment assistance services and following up on the services provided by NGOs to individual CSSA recipients; and
- (b) ***SFS Section.*** The SFS Section coordinates the work of different parties under the SFS Scheme, and monitors the performance of NGOs.

Appendix A shows an extract of the SWD organisation chart. Between January 2013 and March 2015, the IEAPS under the SFS Scheme provided employment assistance services to some 54,000 CSSA recipients (Note 4). The cost of commissioning NGOs to operate the IEAPS was about \$95 million a year.

Note 3: *There are 6 Units located in Hong Kong and Islands, 16 in Kowloon and 19 in the New Territories.*

Note 4: *A person was counted as a participant when he first joined the IEAPS and as an additional participant whenever he rejoined the IEAPS.*

Introduction

1.14 Administering the SFS Scheme under the CSSA Scheme is part of the work under the SWD's Social Security programme. The resources employed are as follows:

- (a) for the entire Social Security programme, the staff establishment is about 2,300 in 2015-16. These include all the staff in 41 Social Security Field Units over the territory, which operate the CSSA Scheme (including services under the IEAPS) and the Social Security Allowance Scheme and emergency relief service, and in centralised units responsible for service development and review, operating the Traffic Accident Victims Assistance Scheme, the Criminal and Law Enforcement Injuries Compensation Scheme, the Emergency Relief Fund and the Social Security Appeal Board, managing and developing the Computerised Social Security System, fraud prevention and investigation, etc; and
- (b) for the SFS Section, the staff establishment of 21 is responsible for administering the SFS Scheme as well as the CSSA Scheme in relation to able-bodied unemployed recipients and children.

The SWD does not have a breakdown on resources for the administration of the SFS Scheme alone.

Audit review

1.15 In April 2015, the Audit Commission (Audit) commenced a review of the SWD's administration of the SFS Scheme. The review has focused on the following areas:

- (a) monitoring and reporting on achievement of Scheme objectives (PART 2);
- (b) commissioning NGOs to provide employment assistance services (PART 3);
- (c) provision of employment assistance services (PART 4); and
- (d) monitoring and evaluating project performance (PART 5).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

General response from the Government

1.16 The Director of Social Welfare agrees with the audit recommendations. The Secretary for Labour and Welfare has taken note of the comments made by Audit. He has said that the Labour and Welfare Bureau:

- (a) will continue to attach great importance to facilitating employment of those who are able to work, to promote their self-reliance on one hand and to provide labour supply to drive our economy against an ageing population on the other;
- (b) plans to launch the Low Income Working Family Allowance in around mid-2016 which is designed to provide a basic allowance to eligible low income families. This basic allowance is tied to employment and working hours to encourage self-reliance. A higher amount will be granted to those who work more, while families with children will receive an additional allowance; and
- (c) will conduct an evaluation of the Low Income Working Family Allowance one year after its implementation, and will consider the future of the SFS Scheme in that context.

Acknowledgement

1.17 Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the SWD during the course of the audit review.

PART 2: MONITORING AND REPORTING ON ACHIEVEMENT OF SCHEME OBJECTIVES

2.1 This PART examines the monitoring and reporting on the achievement of the objectives of the SFS Scheme. The following issues are discussed:

- (a) monitoring achievement of Scheme objectives (paras. 2.2 to 2.16); and
- (b) reporting on achievement of Scheme objectives (paras. 2.17 to 2.23).

Monitoring achievement of Scheme objectives

2.2 The SFS Scheme, consisting of the employment assistance programmes and the disregarded earnings arrangement, aims to encourage and assist employable CSSA recipients to secure employment and achieve self-reliance (see paras. 1.6 to 1.8). During the initial years of operation of the Scheme, the Government had periodically evaluated the effectiveness of the Scheme in helping the participants regain employment, improve awareness of social responsibilities, improve awareness of the need to re-establish self-reliance, and understand the importance of employment. The Government reported to the Legislative Council (LegCo) Panel on Welfare Services on several occasions, as follows:

- (a) *Evaluation reports (December 2000 and June 2001).* At the Panel meeting in June 2000, Members requested a review of the effectiveness of the SFS Scheme. The Government conducted a review with the assistance of an external research team, and provided the Panel with a mid-term evaluation report in December 2000 and a final report in June 2001. The reports concluded that the SFS Scheme had been effective, highlighting that between June 1999 and November 2000:
 - (i) the proportion of Scheme participants having found employment was five times higher than the proportion of CSSA recipients having found employment before introducing the Scheme; and
 - (ii) the number of CSSA unemployment cases dropped by 27%;

Monitoring and reporting on achievement of Scheme objectives

- (b) ***Updated information (December 2002).*** In December 2002, the Government reported to the Panel that the SFS Scheme had triggered an unprecedented downward trend in CSSA unemployment cases. However, due to unfavourable economic conditions and rising unemployment, the downward trend had reversed since April 2001. The external research team engaged by the Government found that the majority of Scheme participants considered the Scheme useful. The Government recognised the need to review from time to time the measures put in place to help CSSA recipients back to work;
- (c) ***Report on intensified SFS measures (June 2004).*** In June 2004, the Government reported to the Panel that intensified SFS measures (e.g. commissioning NGOs to run intensive employment assistance projects) had been introduced since June 2003. The results suggested that the measures were meeting the objectives of assisting unemployed CSSA recipients to become more self-reliant. In particular, a downward trend in CSSA unemployment cases emerged in October 2003; and
- (d) ***Evaluation study (June 2005).*** In June 2005, the Government reported to a Subcommittee under the Panel that an external research team had been commissioned to conduct an evaluation study of the SFS measures, including the intensive employment assistance projects run by NGOs (see (c) above). The Government was studying the recommendations for improving the effectiveness of the measures. The paper highlighted that CSSA unemployment cases had increased from 4,866 to 45,231 over 10 years from 1994 to 2004.

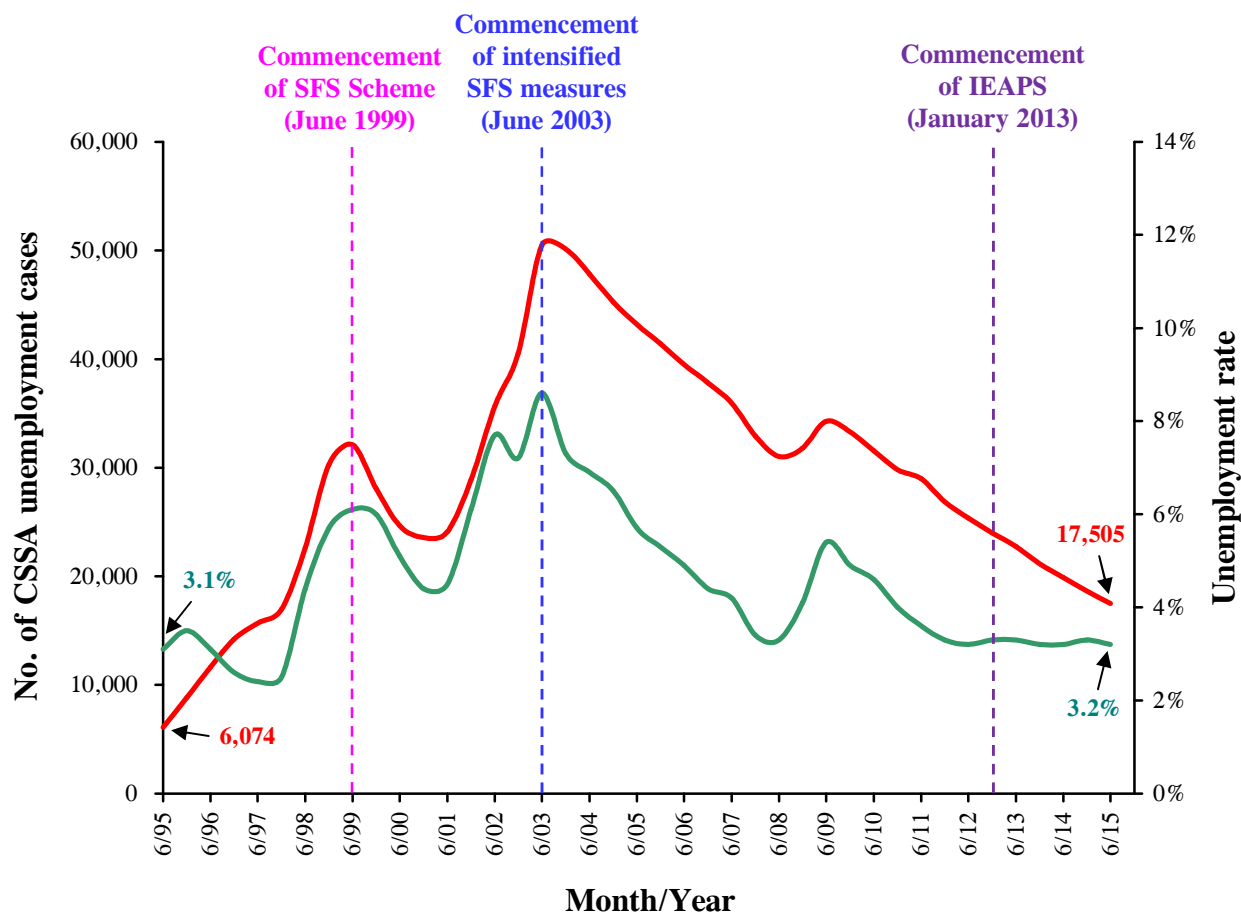
Unemployment cases

2.3 Audit noted that in the paper submitted to the LegCo Panel in June 2001 (see para. 2.2(a)), the Government indicated that the CSSA unemployment caseload was the target of the SFS Scheme, and the reduced number of unemployment cases was believed to be the combined effect of various factors including the SFS Scheme, various tightening measures under the CSSA Scheme and the external economic environment.

2.4 Figure 1 shows Audit analysis of the number of CSSA unemployment cases and unemployment rate in Hong Kong between June 1995 and June 2015.

Figure 1

CSSA unemployment cases and unemployment rate in Hong Kong
(June 1995 to June 2015)



Legend: — CSSA unemployment cases
— Unemployment rate in Hong Kong

Source: *Audit analysis of SWD records and the unemployment statistics compiled by the Census and Statistics Department.*

Remarks: *In May 2011, a statutory minimum wage of \$28 per hour was introduced. The minimum wage was increased to \$30 per hour in May 2013 and \$32.5 per hour in May 2015.*

Monitoring and reporting on achievement of Scheme objectives

2.5 It can be seen from Figure 1 that:

- (a) between June 1995 and June 2003, the number of CSSA unemployment cases increased from 6,074 to about 50,000, and had since declined to 17,505 in June 2015; and
- (b) after the implementation of the SFS Scheme in June 1999, the number of CSSA unemployment cases largely moved in the same direction as the unemployment rate.

2.6 The downward trend in CSSA unemployment cases is encouraging. In Audit's view, the SWD should continue to monitor the number of unemployment cases. Although the number of job vacancies in Hong Kong has remained at a high level in recent years (85,893 in March 2015), as at June 2015, there were still 17,505 unemployment cases, representing about three times the 6,074 cases as at June 1995.

IEAPS participants' job-securing rate and off-CSSA-net rate

2.7 In January 2013, the SWD integrated the previous employment assistance programmes and commissioned 26 NGOs to operate the IEAPS for 27 months from January 2013 to March 2015 (see paras. 1.8(a) and 1.9). According to the SWD:

- (a) the SFS Scheme has been found to be effective in helping participants improve awareness of social responsibilities, improve awareness of the need to re-establish self-reliance, and understand the importance of employment;
- (b) the SWD has built in a monitoring mechanism for on-going and systematic evaluation of the performance of the NGOs operating the IEAPS projects, including collecting performance summaries from the NGOs and issuing benchmark reports to them on a quarterly basis; and

Monitoring and reporting on achievement of Scheme objectives

- (c) the performance of the NGOs was generally satisfactory. With the new model of the IEAPS projects having been running for only 27 months, the SWD invited the 26 NGOs to continue running the IEAPS projects for another 24 months from April 2015 to March 2017. This helped ensure continuity of the service and minimised disruption to the support for able-bodied unemployed CSSA recipients.

2.8 For SFS Scheme participants who have secured employment, depending on their earnings, they may leave the CSSA net or become CSSA recipients with low earnings (see para. 1.4). As the SFS Scheme aims to encourage and assist employable CSSA recipients to secure employment and achieve self-reliance (see para. 1.6), SFS Scheme participants' job-securing rate (i.e. the percentage of participants having secured employment) and off-CSSA-net rate (i.e. the percentage of participants having left the CSSA net) are two useful indicators, among other considerations (see para. 2.7(a)), for evaluating the effectiveness of the Scheme. Table 3 shows the job-securing rate and off-CSSA-net rate under the IEAPS for the period from January 2013 to March 2015.

Monitoring and reporting on achievement of Scheme objectives

Table 3

**IEAPS participants' job-securing rate and off-CSSA-net rate
(January 2013 to March 2015)**

Category of services	No. of participants (Note 1) (a)	No. of participants having secured employment (Note 2) (b)	Job-securing rate (c) = $\frac{(b)}{(a)}$	No. of participants having left CSSA net (d)	Off-CSSA-net rate (e) = $\frac{(d)}{(a)}$
Category I and II services for unemployed persons (Ordinary and Strengthened Employment Assistance Services)	49,358	9,201	18.6%	1,749	3.5%
Category III services for single parents and child carers (New Dawn Project Services)	4,092	1,549	37.9%	223	5.4%
Category IV services for unemployed youths (Special Training and Enhancement Programme)	663	374	56.4%	76	11.5%
Overall	54,113	11,124	20.6%	2,048	3.8%

Source: SWD records

Note 1: A person was counted as a participant when he first joined the IEAPS and as an additional participant whenever he rejoined the IEAPS.

Note 2: For unemployed persons, the number represented those having secured full-time paid employment for at least one month. For single parents and child carers, the number represented those having secured full-time or part-time paid employment for at least one month. For unemployed youths, the number represented those having secured full-time paid employment or returned to mainstream schooling for at least one month.

Monitoring and reporting on achievement of Scheme objectives

2.9 It can be seen from Table 3 that the majority of the IEAPS participants were provided with Category I and II services (i.e. Ordinary and Strengthened Employment Assistance Services for unemployed persons), with a job-securing rate of 18.6% and an off-CSSA-net rate of 3.5% for the period from January 2013 to March 2015 (i.e. 27 months). According to the SWD:

- (a) between October 2008 and December 2012 (i.e. 51 months), the employment assistance services for unemployed persons were provided by NGOs under the previous Integrated Employment Assistance Scheme, (see para. 1.7(a)), with a job-securing rate of 21.5% and an off-CSSA-net rate of 7.1%;
- (b) it was not appropriate to compare directly the job-securing rate and off-CSSA-net rate before and after the implementation of the IEAPS because the IEAPS was a different operating mode integrating various employment assistance projects previously implemented under the SFS Scheme and, among others, the length of the periods concerned (51 months for the previous Scheme and 27 months for the IEAPS) was not the same; and
- (c) whether the participants could secure employment depended on a number of factors. Besides, the personal characteristics and circumstances of CSSA recipients also affected their chances of returning to work and moving up the job ladder.

2.10 The IEAPS is a new operating mode for providing employment assistance services. Its cumulative result is also yet to be seen. There are merits in closely monitoring the participants' job-securing rate and off-CSSA-net rate under the IEAPS. In particular, Audit findings in PART 5 revealed relatively poorer performance of some of the 41 projects under the IEAPS for the period from January 2013 to March 2015 (see paras. 5.5 to 5.7).

Need for regular data analysis

2.11 Regular analysis of the profile of SFS Scheme participants (such as their gender, age, education level, duration of stay on CSSA for being unemployed, duration of stay on CSSA for other reasons such as being a single parent, and number, duration and earnings of any previous jobs secured under the SFS Scheme)

Monitoring and reporting on achievement of Scheme objectives

can derive useful management information for evaluating the effectiveness of the SFS Scheme and identifying room for improvement. For example, for a particular category of SFS Scheme participants, an upward trend in the duration of stay on CSSA for being unemployed would suggest that more should be done to encourage and assist them to secure employment.

2.12 Audit noted that there were a number of limitations in the SWD's computer information system, rendering it difficult for the SWD to conduct comprehensive data analysis regularly and efficiently. For example:

- (a) the SWD maintained records of CSSA recipients in its Computerised Social Security System, which was rolled out in 2000. Records of SFS Scheme participants were maintained separately in a standalone computerised database;
- (b) since CSSA-related data (e.g. duration of stay on CSSA and past employment records) were maintained only in the Computerised Social Security System, such data of SFS Scheme participants could be analysed only on a need basis by conducting matching of records of the SFS Scheme database and the System; and
- (c) updating of the SFS Scheme database was done by individual NGOs. The SWD had found that the information might not always be accurate and complete.

2.13 The SWD informed Audit in July 2015 that:

- (a) the SWD was in the process of developing a new Computerised Social Security System to replace the existing one. The new system, expected to be rolled out in early 2018, would incorporate key records of SFS Scheme participants; and
- (b) NGOs had been regularly collecting and collating data of IEAPS participants under individual projects for the purpose of providing suitable training programmes and employment assistance services as well as targeted job-searching support according to the participants' educational

Monitoring and reporting on achievement of Scheme objectives

background/skills. To safeguard the accuracy and completeness of the SFS Scheme database, the SWD had made enhancement (e.g. input validation) in April 2015.

In Audit's view, the SWD needs to explore ways to conduct regular analysis of the profile of SFS Scheme participants more efficiently for evaluating the effectiveness of the SFS Scheme.

2.14 In addition, collecting views from SFS Scheme participants is also useful for monitoring the effectiveness of the Scheme. Audit noted that it had not been the SWD's practice to regularly collect views from Scheme participants. The SWD had done so through engaging external research teams in the past when conducting evaluation of the Scheme for reporting to LegCo Panel (see para. 2.2(a), (b) and (d)). In Audit's view, as the IEAPS is a new scheme integrating the previous employment assistance programmes, the SWD should consider collecting views from the participants of the IEAPS.

Audit recommendations

2.15 **Audit has recommended that the Director of Social Welfare should:**

- (a) **continue to monitor the number of CSSA unemployment cases and IEAPS participants' job-securing rate and off-CSSA-net rate under the extended IEAPS currently in operation;**
- (b) **explore ways to conduct regular analysis of the profile of SFS Scheme participants more efficiently for evaluating the effectiveness of the Scheme; and**
- (c) **consider collecting views from participants of the IEAPS.**

Response from the Government

2.16 The Director of Social Welfare agrees with the audit recommendations. She has said that the SWD will:

Monitoring and reporting on achievement of Scheme objectives

- (a) continue to monitor the number of CSSA unemployment cases as well as IEAPS participants' job-securing rate and off-CSSA-net rate under the extended IEAPS currently in operation;
- (b) explore more efficient ways to conduct regular data analysis of the participants, such as their gender, age, and education level, for evaluating the effectiveness of the SFS Scheme. To safeguard the accuracy and completeness of the SFS Scheme database, the SWD made enhancement in April 2015 and has also started using a database management system since July 2015 to strengthen database management and facilitate more comprehensive data analysis; and
- (c) draw up a feedback form for collecting views from IEAPS participants.

Reporting on achievement of Scheme objectives

Need for regular performance reporting

2.17 The SFS Scheme aims to encourage and assist employable CSSA recipients to secure employment and achieve self-reliance. The cost of commissioning NGOs to operate the IEAPS was about \$95 million a year. The SWD has set performance requirements (e.g. minimum job-securing rates) on each category of services under the IEAPS (see paras. 5.2 and 5.3). The effective operation of the Scheme helps reduce public expenditure on CSSA. Since the implementation of the Scheme in June 1999, the SWD has not released the performance targets or indicators for the services, in its Controlling Officer's Report or website, to measure and report on the overall performance of the Scheme. In Audit's view, to enhance transparency and accountability, the SWD needs to do so.

Need to ensure a proper basis for assessing and reporting performance

2.18 From time to time, at LegCo meetings and when the annual Estimates of Expenditure of the Government were submitted to the LegCo Finance Committee for examination, LegCo Members raised questions about the performance of the SFS Scheme. Audit noted that in March 2015, in respect of 11 questions raised by LegCo Members in the Finance Committee's examination of the 2015-16 Estimates, the SWD provided the following data on the performance of the IEAPS during January 2013 to December 2014:

Monitoring and reporting on achievement of Scheme objectives

- (a) 30,997 able-bodied CSSA recipients participated in the IEAPS;
- (b) 9,930 or 32% participants had successfully secured employment or returned to mainstream schooling; and
- (c) 1,870 or 6% participants had successfully left the CSSA net.

2.19 Upon enquiry, the SWD informed Audit in June 2015 that:

- (a) the 30,997 participants referred to CSSA recipients who newly joined the IEAPS during January 2013 to December 2014; and
- (b) there were some 20,000 CSSA recipients who had been enrolled in the previous employment assistance programmes of the SFS Scheme and were transferred to the IEAPS to receive employment assistance when these previous programmes were integrated into the IEAPS in January 2013. The 30,997 participants did not include these transferred CSSA recipients.

2.20 Audit considers that the transferred CSSA recipients were part of the participants of the IEAPS. The SWD should have included them in the total number of IEAPS participants in order to properly assess and report the performance of the IEAPS under the SWD's SFS Scheme. Moreover, without properly taking these transferred CSSA recipients into account, the job-securing rates and off-CSSA-net rates for individual projects under the IEAPS cannot fully reflect the performance of the projects (see paras. 5.4 and 5.5).

2.21 The SWD did not have readily available records showing what the data would have been for the period January 2013 to December 2014 had the transferred CSSA recipients been included. For the whole IEAPS period from January 2013 to March 2015 (i.e. including the three months ending March 2015 — see Table 3 in para. 2.8), the data were as follows:

- (a) the number of participants of the IEAPS (including CSSA recipients transferred from previous employment assistance programmes) from January 2013 to March 2015 was 54,113;

Monitoring and reporting on achievement of Scheme objectives

- (b) of the 54,113 participants, 11,124 (20.6%) had successfully secured employment or returned to mainstream schooling; and
- (c) of the 54,113 participants, 2,048 (3.8%) had successfully left the CSSA net.

When the transferred CSSA recipients were included in the number of participants of the IEAPS, both the job-securing rate and the off-CSSA-net rate would become lower than those reported by the SWD (see para. 2.18(b) and (c)).

Audit recommendations

2.22 **Audit has recommended that the Director of Social Welfare should:**

- (a) **report the performance targets and indicators for the SFS Scheme with a view to enhancing transparency and accountability; and**
- (b) **review the proper basis and data required for assessing and reporting performance of the IEAPS.**

Response from the Government

2.23 The Director of Social Welfare agrees with the audit recommendations. She has said that the SWD will:

- (a) report targets and indicators relating to the SFS Scheme as recommended; and
- (b) ensure that the previous participants transferred to a newly integrated scheme are included in performance assessment and reporting.

PART 3: COMMISSIONING NON-GOVERNMENTAL ORGANISATIONS TO PROVIDE EMPLOYMENT ASSISTANCE SERVICES

3.1 This PART examines issues relating to the commissioning of NGOs to provide employment assistance services for CSSA recipients under the IEAPS, focusing on the following areas:

- (a) procedures for commissioning NGOs (paras. 3.2 to 3.12); and
- (b) specifying service requirements (paras. 3.13 to 3.24).

Procedures for commissioning non-governmental organisations

SWD procedures for commissioning NGOs

3.2 According to the Guide to Procurement issued by the Financial Services and the Treasury Bureau (FSTB), achieving best value for money and maintaining open and fair competition are the twin policy objectives for government procurement. The Stores and Procurement Regulations (SPRs) made by the Financial Secretary/Secretary for Financial Services and the Treasury under the Public Finance Ordinance (Cap. 2) stipulate that departments should normally adopt open tendering for procuring general services exceeding \$1.43 million (Note 5).

3.3 However, the Government modified the framework for the allocation of welfare services in January 2001 with a view to, inter alia, enhancing accountability in the use of public funds, shifting emphasis from input control to output and outcome, and addressing the issue of NGOs “perpetually” owning the service once funding is allocated. The 2001 framework specifies that:

Note 5: *The 41 projects under the IEAPS had contract sums ranging from about \$3 million to \$9 million (totalling \$224 million).*

Commissioning non-governmental organisations to provide employment assistance services

- (a) competitive bidding is still required on price and quality for a defined type of welfare services (new service units offering meal service, home care, enhanced home care, elderly day care and residential care for the elderly); and
- (b) a “quality-based allocation system” is adopted for all other welfare services. NGOs would have to compete on the basis of service quality while the price for the subvented service would be fixed by the SWD.

According to the FSTB, many types of social welfare services have been delivered by NGOs through government subventions and subvention arrangements are not subject to the SPRs. The LegCo Panel on Welfare Services was briefed on the framework. In the light of the Government’s policy decision in 2001, welfare services under (a) above have been subject to the procurement regime and the SPRs; those under (b) are not.

3.4 The SWD has generally adopted a “quality-based allocation system” for commissioning NGOs to provide welfare services on a competitive basis. According to the SWD:

- (a) under the system, the SWD fixes the contract sum for a welfare service and invites NGOs to submit proposals for providing the service. A committee (chaired by a directorate officer of the SWD — Note 6) evaluates the quality of the proposals received and recommends suitable NGOs to the Director of Social Welfare for allocating the service. Services are allocated on the basis of time-defined contracts (Note 7); and
- (b) the contracts for the 41 projects under the IEAPS (covering the period January 2013 to March 2015 — see paras. 1.9 and 1.10) were awarded to 26 NGOs using the “quality-based allocation system”. The SWD posted on its website in 2012 an invitation of proposal to operate the IEAPS at fixed contract sums. A project selection committee was set up

Note 6: *Members of the committee may include representatives of the Labour and Welfare Bureau and other government bureaux/departments and SWD staff.*

Note 7: *According to the SWD, this aims to give both the Government and the welfare sector an opportunity to review and reengineer the service in the overall context of welfare service planning.*

Commissioning non-governmental organisations to provide employment assistance services

to evaluate 105 project proposals received from 32 NGOs. Members of the committee included representatives of the Labour and Welfare Bureau and the Labour Department and SWD staff. The committee selected 41 project proposals from 26 NGOs. The Director of Social Welfare approved the award of contracts to the 26 NGOs.

3.5 As regards how the SWD set the contract sums for the 41 projects under the IEAPS, records provided by the SWD to Audit indicated that factors such as past contract amount and inflation had been taken into account when determining the unit costs and hence the contract sum.

Commissioning the same NGOs to operate the extended IEAPS

3.6 In January 2015, the Chief Executive announced in his 2015 Policy Address that the IEAPS would be extended upon its expiry in March 2015 for two years (i.e. till March 2017). The SWD invited the 26 NGOs to continue running the 41 projects for the period of extension, at revised contract sums fixed by the SWD. On receiving their confirmation of acceptance of invitation, the SWD awarded new contracts to the 26 NGOs for the period April 2015 to March 2017.

3.7 The SWD has in place a monitoring mechanism for on-going evaluation of the performance of the NGOs operating the IEAPS projects (see para. 2.7(b)). According to the SWD, based on the on-going monitoring, the performance of the NGOs was found to be generally satisfactory. However, there were no records indicating that the SWD had evaluated the overall performance of the 26 NGOs in a comprehensive manner, vis-à-vis the performance of each other, before inviting them to continue running the 41 projects. Audit findings in PART 5 revealed relatively poorer performance of some NGOs (see paras. 5.5 to 5.7).

3.8 Audit noted that the total contract sum for the 41 projects under the extended IEAPS (24 months) was \$196 million (averaging \$8.17 million per month), compared with \$224 million for the original IEAPS (27 months) (averaging \$8.30 million per month). On the setting of the contract sum, as in the case of the original IEAPS, factors such as past contract amount and inflation had been taken into account when determining the unit costs and hence the contract sum.

Commissioning non-governmental organisations to provide employment assistance services

3.9 Audit considers that inviting the same NGOs to operate the extended IEAPS at the pre-set contract sum, without open and fair competition, did not provide assurance that the SWD would obtain the best value for money.

Audit recommendation

3.10 **Audit has recommended that the Director of Social Welfare should commission NGOs to provide welfare services on a competitive basis, taking into account NGOs' past performance in the selection process.**

Response from the Government

3.11 The Director of Social Welfare agrees with the audit recommendation. She has said that:

- (a) under the “quality-based allocation system”, in assessing NGOs' proposals for providing welfare services, the SWD will look for value-added services to be provided to service users; and
- (b) inviting the same 26 NGOs to continue running the IEAPS projects for another 24 months from April 2015 to March 2017 helped ensure continuity of the service and minimised disruption to the support for able-bodied unemployed CSSA recipients.

3.12 The Secretary for Financial Services and the Treasury has said that:

- (a) the contract renewal should not be automatic even if the performance of the existing operators has been taken into account; and
- (b) the SWD may wish to review the effectiveness of the “quality-based allocation system”, particularly whether measures are in place to track the performance of NGOs, and whether NGOs have been allowed to “perpetually” own a service, even though other better performing NGOs do exist and want to compete for service.

Specifying service requirements

3.13 The 26 NGOs commissioned to operate the 41 projects under the IEAPS were required to comply with the service requirements on the projects as specified in the contracts, including the service districts, categories of services, service capacity, staffing, insurance and statistical returns. Audit examination has revealed room for improvement. Details are in paragraphs 3.14 to 3.22.

Unused service capacity for Category I and III services

3.14 For each of the 41 projects, the IEAPS contracts specified the required service capacity (in terms of the number of service recipients) for Category I, III and IV services where applicable (see Table 4 — Note 8). According to the contracts:

- (a) the NGOs were required to provide services according to the number of service recipients specified, up to 110% of the service capacity if necessary; and
- (b) the NGOs might be required to provide additional services if the number of service recipients was under 90% of the service capacity. In such circumstances, no additional payment would be made.

Note 8: *For Category II services, the IEAPS contract specified the required number of classroom training hours and work exposure sessions (see para. 4.3).*

**Commissioning non-governmental organisations
to provide employment assistance services**

Table 4

**Service capacity specified in IEAPS contracts
(January 2013 to March 2015)**

Category of services	Service recipients	No. of projects providing services	Service capacity specified (No. of service recipients)		
			Range	Average	Total for all projects
I	Unemployed persons	41	500 to 1,200	815	33,400 (Note 1)
III	Single parents and child carers	41	50 to 310	143	5,880 (Note 2)
IV	Unemployed youths	10	40 to 80	60	600 (Note 2)

Source: Audit analysis of SWD records

Note 1: The service capacity was the number of service recipients at any one time during the contract period.

Note 2: The service capacity was the number of service recipients for the contract period.

3.15 Audit noted from SWD records that, from January 2013 to March 2015, almost all projects had unused service capacity for Category I and III services (see Table 5).

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Table 5

**Projects with unused service capacity
(January 2013 to March 2015)**

Category of services	Service recipients	No. of projects providing services	No. of projects with unused service capacity				Total
			< 10% unused	10% to < 30% unused	30% to < 50% unused	50% or more unused	
I	Unemployed persons	41	–	6	32	3 (Note 1)	41
III	Single parents and child carers	41	5	8	17	8 (Note 2)	38
IV	Unemployed youths	10	1	–	–	–	1

Source: Audit analysis of SWD records

Note 1: The highest percentage of unused service capacity was 53%, involving two projects.

Note 2: The highest percentage of unused service capacity was 82%, involving one project.

3.16 The total used and unused service capacity for the 41 projects are summarised below:

- (a) **Category I services.** Of the total service capacity of 33,400 service recipients, 20,370 (61%) were used and 13,030 (39%) were unused; and
- (b) **Category III services.** Of the total service capacity of 5,880 service recipients, 4,092 (70%) were used and 1,788 (30%) were unused.

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3.17 Records provided by the SWD to Audit indicated that, in setting the service capacity for each of the 41 projects, the SWD had made reference to past average caseload figures in projecting the potential caseload under the service contracts.

3.18 In extending the IEAPS for 24 months till March 2017, the SWD had adjusted downwards the service capacity for Category I and III services (see Table 6) whereas the monthly cost on average remained roughly the same (see para. 3.8). Similarly, SWD records indicated that reference had been made to past average caseload figures in projecting the potential caseload under the service contracts.

Table 6

Changes in the service capacity specified in IEAPS contracts

Category of services	Service recipients	No. of projects providing services	Total service capacity specified (No. of service recipients)		
			Jan 2013 to Mar 2015	Apr 2015 to Mar 2017	Increase/ (Decrease)
I	Unemployed persons	41	33,400	27,200	(6,200)
III	Single parents and child carers	41	5,880	4,440	(1,440)
IV	Unemployed youths	10	600	650	50

Source: Audit analysis of SWD records

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3.19 Audit noted the following:

- (a) **Category I services.** The adjusted total service capacity of 27,200 service recipients was significantly higher than the used capacity of 20,370 service recipients for the previous contract period from January 2013 to March 2015 (see para. 3.16(a)). Also, according to SWD records, there were only some 20,000 unemployed CSSA recipients as at March 2015. It is likely that there will be unused service capacity, given the downward trend in CSSA unemployment cases (see para. 2.5(a)); and
- (b) **Category III services.** The adjusted total service capacity of 4,440 service recipients was slightly higher than the used capacity of 4,092 service recipients for the last contract period (see para. 3.16(b)).

3.20 The IEAPS contracts have involved payments to the 26 NGOs aggregating \$224 million for January 2013 to March 2015 and \$196 million for April 2015 to March 2017. It is important that the service capacity is properly set and its use is maximised. Upon enquiry, the SWD informed Audit in September 2015 that, perhaps reflecting a tight labour supply, the number of CSSA cases, including the number of unemployment cases, had registered a continuous decrease since April 2011 and September 2009 respectively, and this had resulted in a reduced number of CSSA recipients required to participate in employment assistance services. In Audit's view, the SWD needs to:

- (a) critically review the methodology for setting service capacity for the current and past contracts to identify what lessons can be learned for future exercises; and
- (b) closely monitor the use of the service capacity for the current contracts. According to the contracts, the SWD may require NGOs to provide additional services if the number of service recipients is under 90% of the service capacity (see para. 3.14(b)). However, the SWD had not adequately done so under the past contracts. According to the SWD, since November 2014, it had asked NGOs to take on extra work (e.g. collecting information and checking relevant supporting documents). For the current contracts, the SWD needs to put any unused capacity to more gainful use, such as enhancing Category II services (see paras. 4.3 to 4.12) and/or Category IV services for unemployed youths, which has a limited capacity (see Case 1).

Case 1

A youth who might benefit from special training

1. Youth A had been enrolled in the previous employment assistance programmes of the SFS Scheme due to unemployment.

2. In January 2013 when the IEAPS was launched, Youth A was enrolled in the IEAPS. Up to March 2015 when the contract period of the IEAPS ended and after the commencement of the new contract period in April 2015, Youth A has continued to participate in the IEAPS/extended IEAPS.

3. Records indicated that Youth A had been unemployed since June 2006, when he graduated from secondary school at age 20. As at June 2015, he had been unemployed for 9 years. However, he did not receive special training under Category IV services of the IEAPS/extended IEAPS.

Audit comments

4. Audit noted that, during January 2013 to March 2015, 7,042 unemployed youths were newly enrolled in the IEAPS and many of them could be potential target participants for Category IV services. However, as the capacity for Category IV services for unemployed youths was only 600 service recipients (see Table 4 in para. 3.14), potential target participants might not have the chance to receive such services. The SWD needs to explore with the NGOs whether they are able to offer more capacity for Category IV services and reduce the unused capacity in the other categories.

Source: SWD records

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Scope for more specific requirements on staffing and insurance

3.21 **Staffing.** The IEAPS contracts specified that the NGOs should provide different types of staff which should include, among others, project manager, caseworker(s) and supporting/clerical staff in sufficient number to meet the service requirements. Audit noted different practices among the 41 projects under the IEAPS, as follows:

- (a) **Qualification of caseworkers.** Caseworkers were responsible for providing employment assistance services. Of the 41 projects, 25 (61%) required caseworkers to be registered social workers while 16 (39%) did not have such requirement; and
- (b) **Ratio of service recipients to caseworkers.** Of the 41 projects, 14 (34%) had the ratio of service recipients to caseworkers not lower than 200 to 1, the highest ratio being 375 to 1 (Note 9). The remaining 27 (66%) projects had the ratio lower than 200 to 1, the lowest ratio being 110 to 1.

The qualification of caseworkers and the ratio of service recipients to caseworkers could affect the quality of employment assistance services. In Audit's view, the SWD should assess the need to provide further guidance.

3.22 **Insurance.** The IEAPS contracts specified that the NGOs should make provision for appropriate employees compensation insurance, public liability insurance and group personal accident insurance, etc to cover service recipients, staff, visitors and other related persons throughout the contract period. Audit analysis of the 41 projects under the IEAPS revealed different practices, as follows:

- (a) for 10 projects, the public liability insurance covered the NGOs only and did not cover the Government;
- (b) for four projects, group personal accident insurance had not been arranged for recipients of work exposure service under Category II services and Category IV services for youths; and

Note 9: *The number of service recipients specified in the contract (i.e. service capacity) was used for calculating the ratios.*

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- (c) according to the insurance policies, the indemnity limit for each claim differed widely among the 41 projects. For public liability insurance, the indemnity limit ranged from \$6.5 million to \$50 million. For group personal accident insurance, the indemnity limit ranged from \$3 million to \$200 million. It is worth noting that the projects were of similar nature and their service capacity did not differ widely (see Table 4 in para. 3.14).

Audit recommendations

3.23 **Audit has *recommended* that the Director of Social Welfare should:**

- (a) **critically review the methodology for setting service capacity for the current and past IEAPS contracts to identify what lessons can be learned for future exercises;**
- (b) **closely monitor the use of the service capacity for the current IEAPS contracts and put any unused capacity to gainful use;**
- (c) **assess the need to provide further guidance on the qualification of caseworkers and the ratio of service recipients to caseworkers; and**
- (d) **assess the need to provide further guidance on insurance for IEAPS projects.**

Response from the Government

3.24 The Director of Social Welfare agrees with the audit recommendations. She has said that:

- (a) the SWD will review the methodology for setting service capacity with a view to maximising resources in providing employment assistance services for CSSA recipients;

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- (b) the actual number of CSSA unemployment cases is very much dependent on factors like the current situation of the economy and labour market as well as the resources available to and family condition of unemployed persons, which are beyond the SWD's control; and
- (c) for Category III services, some target single parents or child carers chose to be sanctioned with the deduction of CSSA payment instead of receiving the services (see Table 2 in para. 1.11). This led to a further drop in the number of enrolment of service recipients.

PART 4: PROVISION OF EMPLOYMENT ASSISTANCE SERVICES

4.1 This PART examines the following issues relating to the provision of employment assistance services for CSSA recipients under the IEAPS:

- (a) providing strengthened employment assistance services (paras. 4.3 to 4.13); and
- (b) monitoring attendance and deterring abuse (paras. 4.14 to 4.22).

Categories of services and enrolment arrangement

4.2 As mentioned in paragraph 1.11, under the IEAPS there are four categories of employment assistance services provided by the NGOs to CSSA recipients. The enrolment arrangement is as follows:

- (a) ***Category I services (Ordinary Employment Assistance Services).*** The SWD refers unemployed persons to the NGOs;
- (b) ***Category II services (Strengthened Employment Assistance Services).*** The NGOs are required to assess and select suitable service recipients of Category I services to receive Category II services;
- (c) ***Category III services (New Dawn Project Services).*** The SWD refers single parents and child carers to the NGOs; and
- (d) ***Category IV services (Special Training and Enhancement Programme).*** The SWD and the NGOs select unemployed youths receiving Category I services to receive Category IV services instead where appropriate.

For Category I, III and IV services, the IEAPS contracts specified the service capacity (in terms of the number of service recipients) required to be provided by NGOs (see paras. 3.14 to 3.20).

Providing strengthened employment assistance services

Contract requirements on Category II services

4.3 Classroom training and work exposure services are the two key components of Category II services. For each of the 41 projects under the IEAPS, the contracts specified the total number of classroom training hours and work exposure service sessions (Note 10) required to be provided by the NGO concerned. For the contract period January 2013 to March 2015, the required classroom training hours ranged from 2,700 hours to 6,480 hours, the average being 4,399 hours. The required work exposure service sessions ranged from 9,720 sessions to 23,328 sessions, the average being 15,836 sessions.

4.4 According to the contracts, in selecting service recipients of Category I services to receive Category II services, the NGOs might give priority to those with low employability due to low motivation, low educational attainment, low skill level and lack of relevant work experience and confidence. The contracts also required that the NGOs should even out the classroom training hours and work exposure service sessions during the contract period as far as possible.

Projects not meeting contract requirements

4.5 Audit noted that the classroom training hours and work exposure service sessions provided by some projects in the contract period January 2013 to March 2015 fell short of the requirements (see Table 7). The total figures are summarised below:

- (a) ***Classroom training.*** The total shortfall was 10,716 hours, representing 6% of the total requirement of 180,360 hours for the 41 projects; and
- (b) ***Work exposure services.*** The total shortfall was 151,188 sessions, representing 23% of the total requirement of 649,296 sessions for the 41 projects.

Note 10: *A work exposure service session had a duration of 3.5 hours. A whole-day work exposure training was counted as two sessions.*

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Table 7

**Projects not meeting contract requirements on
classroom training hours and work exposure service sessions
(January 2013 to March 2015)**

Type of Category II services	Service recipients	No. of projects providing services	No. of projects not meeting requirements				
			< 10% shortfall	10% to < 30% shortfall	30% to < 50% shortfall	50% or more shortfall	Total
Classroom training	Unemployed persons	41	2	5	5	2 (Note 1)	14
Work exposure			1	11	10	6 (Note 2)	28

Source: Audit analysis of SWD records

Note 1: The highest percentage of shortfall was 65%, involving one project. According to the SWD, the project served a district which had a significant number of participants who had no fixed abode or moved around frequently (e.g. street sleepers and discharged prisoners). The high mobility of the participants had limited the number of participants for selection to receive Category II services. Moreover, around 35% of the participants were within the age of 50 and 59 with low education level, who were more reluctant to attend training activities.

Note 2: The highest percentage of shortfall was 72%, involving one project. According to the SWD, around 40% of the participants were aged 50 or above, who might not be suitable for work exposure services that required relatively high physical input. Moreover, the project involved unemployed CSSA recipients from a Social Security Field Unit which covered scattered areas with participants living in a number of different locations. It could be difficult for the NGO to arrange work exposure services for a group of recipients at the same time.

4.6 Upon enquiry, the SWD informed Audit in September 2015 that:

- (a) the number of CSSA cases, including the number of unemployment cases, registered a continuous decrease since April 2011 and September 2009 respectively. The NGOs inevitably could only select suitable participants from a smaller pool of recipients to receive Category II services; and

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- (b) social characteristics of the local community and the participants also affected NGOs' arrangement of classroom training and work exposure services for the participants (Note 11).

Audit examination of three projects

4.7 In this audit review, Audit selected three projects for examination (i.e. Projects A to C operated by NGOs A to C respectively). The three projects were responsible for serving CSSA recipients within different districts in Hong Kong, Kowloon, and the New Territories respectively.

4.8 Between June and August 2015, Audit conducted inspection visits to the offices of the three NGOs and examined their files and records of employment assistance services provided to a total of 90 CSSA recipients during January 2013 to March 2015. The 90 CSSA recipients comprised 60 unemployed persons, 15 single parents or child carers, and 15 unemployed youths.

4.9 Audit noted that Projects A to C were among those projects not meeting the contract requirements on classroom training hours and work exposure service sessions (see Table 7 in para. 4.5). Of the 60 unemployed persons examined by Audit, only 31 had been provided with Category II services, comprising 8 (40%) of the 20 persons under Project A, 6 (30%) of the 20 persons under Project B and 17 (85%) of the 20 persons under Project C. Audit noted that many of the remaining 29 unemployed persons might also benefit from Category II services to enhance their employability (e.g. those who had been unemployed for a long time). Case 2 shows an example.

Note 11: *For example, some of the districts had a significant number of participants who had no fixed abode or moved around frequently.*

Case 2

**A long-term unemployed person who might benefit from Category II services
(Project B)**

1. Person A was unemployed. She began to receive CSSA in July 2003, and had since been enrolled in the SFS Scheme. In January 2013 when the IEAPS was launched, she was enrolled in Project B to receive Category I services.

2. Records indicated that Person A had received only primary education. She took up casual jobs intermittently in 2004, 2006 and 2007. She also took up a full-time job for one and a half months in 2011. Afterwards, she had not taken up any employment.

3. In spite of her unemployment history and primary education background, Person A had not been selected by NGO B to receive Category II services. As at March 2015, she was still receiving only Category I services. Upon enquiry, the SWD informed Audit in September 2015 that, according to NGO B, Person A was not selected to receive Category II services because she was assessed to have motivation to work with satisfactory job-interviewing skills.

Audit comments

4. Given Person A's unemployment history and low education level, Category II services may help her enhance her employability.

Source: Audit analysis of SWD and NGO B records

Need to maximise the provision of Category II services

4.10 Classroom training and work exposure services under Category II services are strengthened employment assistance services for encouraging and assisting unemployed CSSA recipients to secure employment and achieve self-reliance. To ensure that Category II services are provided as intended, on a quarterly basis, the SWD collected performance summaries from NGOs, and issued benchmark reports to them comparing their provision of Category II and other

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services against the required level. NGOs were required to submit an action plan for remedial action if their achievements fell behind the requirement. To review the progress of the action plan, the SFS Section conducted visits to the NGOs concerned. The SWD also conducted other monitoring visits to NGOs to check on their performance (see paras. 5.8 and 5.9).

4.11 It is important that the provision of Category II services is maximised to help enhance the employability of the largest possible number of unemployed CSSA recipients. Given the many projects not meeting the requirements on classroom training hours and work exposure service sessions as specified in the IEAPS contracts (see para. 4.5), in Audit's view, the SWD needs to help NGOs meet the requirements (e.g. issuing additional guidelines on selecting unemployed CSSA recipients to receive Category II services), and tighten the monitoring of classroom training and work exposure provided by NGOs (Note 12).

Audit recommendations

- 4.12 **Audit has *recommended* that the Director of Social Welfare should:**
- (a) **ascertain the reasons for some projects under the IEAPS not providing the number of classroom training hours and work exposure service sessions as specified in the contracts, with a view to taking effective measures to help the NGOs meet the requirements;**
 - (b) **remind the NGOs of the need to comply with the contract requirement of providing the specified number of classroom training hours and work exposure service sessions; and**
 - (c) **tighten the monitoring of the classroom training and work exposure services provided by the NGOs and take effective follow-up actions when an NGO is not meeting the requirements.**

Note 12: *According to the contract, NGOs should even out the classroom training hours and work exposure sessions during the contract period. Therefore, the interim performance of an NGO can indicate whether it is meeting the requirements.*

Response from the Government

4.13 The Director of Social Welfare agrees with the audit recommendations.

Monitoring attendance and deterring abuse

4.14 Service recipients of the IEAPS are required to actively seek jobs and attend all the activities of their service programmes (e.g. work plan interviews, classroom training and work exposure services). Service recipients may be exempted from attending the activities on special occasions, such as pregnancy (Note 13), sickness and taking up casual employment.

Need to enhance actions to address the risk of abuse

4.15 Audit examination of Projects A to C revealed a number of occasions (involving 10 of the 90 cases examined) on which service recipients had been exempted from attending the activities of their service programmes because they had claimed that they were taking up casual employment on the same day. According to the SWD guidelines, exemption should be granted for taking up casual employment. However, there were no records indicating that the SWD or the NGOs had considered the risk of abuse and taken action to verify such claims. Case 3 shows a case in which the service recipient claimed to have taken up casual employment regularly while receiving CSSA cash assistance.

Note 13: *Female service recipients can be exempted from attending the activities during the four-week period immediately before the expected date of confinement, and in the six-week period immediately after the date of confinement.*

Case 3

A service recipient claimed to have taken up casual employment regularly (Project B)

1. Person B, a CSSA recipient, had been enrolled in the SFS Scheme for a long time due to unemployment. During March 2011 to December 2012, under the community work programme of the Scheme, he was required to perform three days of community work a week. He claimed that the community work clashed with his casual employment as a labourer. The SWD exempted him from community work.

2. In January 2013 when the IEAPS was launched, Person B was enrolled in Project B to receive Category I services. During January 2013 to March 2015, he continued to claim that he was working as a casual labourer. He was not selected for Category II services, and was not required to attend classroom training and work exposure service sessions.

3. Records indicated that Person B claimed to have been hired by an employer for about 9 to 15 days a month, with about 2 hours' working time each day. He also claimed to be earning less than \$1,000 each month, which was disregarded in calculating his CSSA payment (see para. 1.8(b)). To support his claim, as a standard practice, Person B submitted a self-declared Record of Casual Work showing the employment details (e.g. date, hours and nature of work).

4. There were no records showing that the SWD or NGO B had taken actions (e.g. contacting the employer and finding out more details about the casual employment) to verify the claims of Person B, nor had the rationale for not taking actions been recorded.

Audit comments

5. Given the risk of abuse, more should have been done to verify Person B's claims when granting exemption.

Source: Audit analysis of SWD and NGO B records

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4.16 Not verifying service recipients' claimed employment could be contrary to SWD requirements. According to the SWD's "Guidelines to enhance the verification of information reported by IEAPS service recipients", SWD staff should conduct in-depth enquiries/verification for doubtful cases where, for example:

- (a) the salary is significantly low;
- (b) there are merely one to two working hours in each working day; and
- (c) the reported working days always fall on the dates scheduled for programme activities.

Person B's case met these criteria and thus in-depth enquiries/verification should have been conducted.

4.17 Audit also noted incidents of insufficient evidence used to support exemption for reasons other than casual employment. For example, of the 90 cases Audit examined:

- (a) in five cases (seven occasions), the service recipients had claimed to have been sick but did not provide the sick leave certificates. The SWD guidelines stated that for a period not more than three consecutive months, NGOs could grant exemption for sickness with valid and acceptable sick leave certificates; and
- (b) in seven cases, the service recipients had not provided sufficient documents to support other reasons for exemption. For example, a service recipient claiming to have attended an employment training course organised by a training body only showed a course timetable downloaded from the Internet as supporting evidence.

Upon enquiry, the SWD informed Audit in September 2015 that as most service recipients had low educational attainment, low motivation and low confidence, it was understandable that caseworkers exercised professional judgement and flexibility in granting exemption taking into account individual case circumstances to allow time for the recipients to develop their confidence and job skills in order to become self-reliant.

Provision of employment assistance services

4.18 Audit notes the service recipients' need for flexibility and time to develop their confidence and job skills. However, in order to instil the discipline and work habits contemplated by the employment training courses, Audit considers that the SWD needs to enhance the verification and follow-up of cases in which service recipients are exempted from attending programme activities.

Sanction not correctly imposed

4.19 As a sanction, and with a view to helping re-engage service recipients who have dropped out from programme activities, the SWD will suspend the CSSA entitlement of the service recipient (and that of his family members where applicable) during the period of non-attending programme activities without approval. This has the effect of reducing the CSSA payment to the service recipient. However, Audit noted that the SWD had not always correctly determined the period of suspending CSSA entitlement (sanction period). Case 4 shows an example.

Case 4

Incorrect determination of sanction period

1. On 13 June 2014, Person C, who was unemployed and a CSSA recipient, did not attend a work plan interview under Project B. The chronology of events is as follows:

Date	Event
18.6.2014	NGO B informed the SWD of her non-attendance.
17.7.2014	She turned up at the SWD to discuss her non-compliance (Non-compliance Affirmation Interview).
31.7.2014	She attended an interview at NGO B to start off her work planning again (Re-compliance Review Interview).

2. According to SWD sanction rules, the sanction period should comprise:

- (a) **27.6.2014 to 16.7.2014 (20 days)**. This period started on the 8th working day after the SWD was informed of the non-attendance, and ended on the day before the Non-compliance Affirmation Interview (Note 1); and
- (b) **17.7.2014 to 30.7.2014 (14 days)**. This period started on the day of the Non-compliance Affirmation Interview, and ended on the day before the Re-compliance Review Interview (Note 2).

However, SWD staff determined the sanction period as 14 days (see para. 2(b)).

Audit comments

3. CSSA entitlement was only suspended for 14 days, instead of 34 days (20+14) in accordance with the SWD sanction rules. The cash assistance paid to Person C in excess of the amount computed in accordance with SWD sanction rules amounted to \$2,633.

Source: Audit analysis of SWD records

Note 1: The sooner a service recipient turns up to discuss the case, the shorter the sanction period will be.

Note 2: The sooner a service recipient starts off work planning again, the shorter the sanction period (subject to a 14-day minimum) will be.

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4.20 Of the 90 cases Audit examined, suspension of CSSA entitlement had been exercised in 40 cases. Among these 40 cases, the period of sanction was not correctly determined in 4 (10%) cases. In Audit's view, the SWD needs to ensure that sanction is correctly imposed in accordance with SWD sanction rules to meet the intended objectives.

Audit recommendations

4.21 **Audit has recommended that the Director of Social Welfare should:**

- (a) **take measures to ensure that staff of the SWD and the NGOs adequately verify service recipients' justifications (e.g. taking up casual employment and falling sick) for not attending the activities of their service programmes under the IEAPS having regard to the risk of abuse;**
- (b) **ensure that sanction is correctly imposed in accordance with SWD sanction rules to meet the intended objectives; and**
- (c) **take appropriate follow-up actions on the four cases identified by Audit where the period of sanction was not correctly determined, and ascertain whether there were other similar cases.**

Response from the Government

4.22 The Director of Social Welfare agrees with the audit recommendations and will follow up accordingly. She has said that:

- (a) proper verification should be made if there are doubts on the documents and information provided to support exemption of service recipients from attending activities of their service programmes. Requirements for proper verification for exemption purpose are clearly stated in procedural guidelines. Reminder and refresher training will be provided for both NGOs and the Social Security Field Units on proper case handling. In addition, the SWD will increase the number of exempted cases to be checked in coming monitoring visits by the SFS Section; and

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- (b) all four cases identified by Audit where the period of sanction was not correctly determined have been reassessed with necessary actions taken by the Social Security Field Units concerned. Reminder and refresher training in correctly determining the sanction period will be organised for the Social Security Field Units.

PART 5: MONITORING AND EVALUATING PROJECT PERFORMANCE

5.1 This PART examines the monitoring and evaluation of the performance of IEAPS projects in delivering employment assistance services, focusing on the following areas:

- (a) project performance (paras. 5.2 to 5.11); and
- (b) compliance with guideline requirements (paras. 5.12 to 5.15).

Project performance

5.2 The IEAPS contracts have set out performance requirements on each of the four categories of services. The SWD has also provided the NGOs with procedural guidelines detailing the requirements on the day-to-day operation of the projects under the IEAPS. The NGOs are required to submit monthly and quarterly performance data/reports (e.g. number of classroom training hours and work exposure service sessions provided, and number of jobs secured by service recipients) for evaluation by the SWD. SWD staff also conduct monitoring visits to the NGOs.

Performance requirements set out in IEAPS contracts

5.3 The NGOs were required to meet the performance requirements set out in the IEAPS contracts. Table 8 shows the key requirements.

Monitoring and evaluating project performance

Table 8

**Performance requirements set out in IEAPS contracts
(January 2013 to March 2015)**

Category of services	Service recipients	No. of projects providing services	Minimum job-securing rate (Note)	
			Employment for at least 1 month	Employment for at least 3 months
I	Unemployed persons	41	20%	15%
II	Unemployed persons	41	40%	30%
III	Single parents and child carers	41	40%	30%
IV	Unemployed youths	10	45%	35%

Source: SWD records

Note: For Category I and II services, the rate represented the percentage of service recipients having secured full-time paid employment. For Category III services, the rate represented the percentage of service recipients having secured paid employment with at least 32 working hours in a month. For Category IV services, the rate represented the percentage of service recipients having secured full-time paid employment or returned to mainstream schooling.

Remarks: While the SWD tracked the off-CSSA-net rates of service recipients (i.e. the percentage of service recipients having left the CSSA net), the IEAPS contracts did not set out performance requirements on off-CSSA-net rates. According to the SWD, whether the service recipients could leave the CSSA net depends on a number of factors including the economy and labour market condition which are beyond the control of the NGOs.

Monitoring and evaluating project performance

Need to improve collection of performance information

5.4 The SWD required the NGOs to report quarterly on the number of jobs secured by service recipients of their projects. Using the data, the SWD compiled performance information (job-securing rates and off-CSSA-net rates) for monitoring and evaluating project performance under the IEAPS. Audit noted room for improvement, as follows:

- (a) ***Data for Category II services not collected.*** Category II services were strengthened employment assistance services for selected unemployed persons, aiming at enhancing their employability. The IEAPS contracts had specified the minimum job-securing rates for recipients of Category II services (see para. 5.3). However, the SWD only collected data on the number of jobs secured by unemployed persons as a whole (i.e. comprising those receiving either Category I or Category II services). The SWD did not require NGOs to submit separate data on the number of unemployed persons receiving Category II services and the number of jobs they had secured; and
- (b) ***Service recipients transferred from previous programmes not properly taken into account.*** There were some 20,000 CSSA recipients transferred from previous employment assistance programmes of the SFS Scheme to the IEAPS upon its commencement in January 2013 to receive employment assistance (see para. 2.19(b)). However, the SWD did not properly take these transferred CSSA recipients into account in the compilation of job-securing rates and off-CSSA-net rates for the IEAPS (Note 14). Therefore, the job-securing rates and off-CSSA-net rates did not form an adequate basis for evaluating project performance under the IEAPS.

In Audit's view, the SWD needs to, on a regular basis, collect separate data for Category II services from the NGOs and compile comprehensive performance information covering all service recipients to effectively monitor and evaluate project performance under the IEAPS.

Note 14: *In compiling the job-securing/off-CSSA-net rates, the SWD did not include the 20,000 CSSA recipients in the total number of service recipients for all projects. However, those among the 20,000 CSSA recipients having secured employment/left the CSSA net were included in the calculation of the rates.*

Monitoring and evaluating project performance

Some projects had lower job-securing and/or off-CSSA-net rates

5.5 Due to the limitations mentioned in paragraph 5.4, the job-securing rates and off-CSSA-net rates compiled by the SWD cannot fully reflect individual project performance under the IEAPS. Nevertheless, the compiled rates provided indications on the relative performance of different projects. Tables 9 and 10 show the details.

Table 9

**Job-securing rates of projects under IEAPS
(January 2013 to March 2015)**

Category of services	Service recipients	No. of projects providing services	No. of projects					
			Job-securing rate (see Note below and para. 5.4)					
			< 10%	10% to < 15%	15% to < 20%	20% to < 30%	30% to < 40%	40% or higher
I and II	Unemployed persons	41	2	2	1	11	16	9
III	Single parents and child carers	41	—	1	3	10	7	20
IV	Unemployed youths	10	—	—	—	—	1	9

Source: Audit analysis of SWD records

Note: The rate covered jobs secured for at least 1 month (see Note to Table 8 in para. 5.3).

Monitoring and evaluating project performance

Table 10

Off-CSSA-net rates of projects under IEAPS (January 2013 to March 2015)

Category of services	Service recipients	No. of projects providing services	No. of projects					
			Off-CSSA-net rate (see para. 5.4)					
			0% to <1%	1% to <2%	2% to <4%	4% to <7%	7% to <10%	10% or higher
I and II	Unemployed persons	41	3	9	12	4	3	10
III	Single parents and child carers	41	6	4	11	11	6	3
IV	Unemployed youths	10	—	—	—	3	2	5

Source: Audit analysis of SWD records

5.6 Tables 9 and 10 show that some projects had relatively poorer performance, including those not meeting the performance requirements specified in the IEAPS contracts. In particular, Audit noted the following:

- (a) **Category I and II services.** For the four projects with the poorest job-securing rates, their rates were less than 15%, compared with the minimum job-securing rate of 20% for employment of at least one month (for Category I services), as specified in the IEAPS contracts (see Table 8 in para. 5.3); and
- (b) **Category III services.** For the four projects with the poorest job-securing rates, their rates were less than 20%, compared with the minimum job-securing rate of 40% for employment of at least one month as specified in the IEAPS contracts. Of the four projects, three were among the four projects mentioned in (a) above.

Monitoring and evaluating project performance

The projects in (a) and (b) above had 4,650 service recipients in total, and were operated by five different NGOs. Audit noted that, notwithstanding the poorer performance of some projects, all 26 NGOs were commissioned by the SWD to continue operating their projects for 24 months after expiry of the original IEAPS contracts in March 2015.

5.7 Upon enquiry, the SWD informed Audit in September 2015 that past performance of the NGOs had been taken into account in selecting them to continue implementing the IEAPS. While Audit noted the SWD's effort in monitoring the project performance (see paras. 4.10 and 5.2), Audit considers that the SWD needs to pay particular attention to projects having relatively poorer performance (particularly those which did not meet the performance requirements specified in the IEAPS contracts), ascertain the underlying reasons and take appropriate measures to improve their performance. The SWD also needs to take full account of the past performance of the NGOs in future exercises of commissioning NGOs to provide employment assistance services.

Risks not adequately taken into account in monitoring visits

5.8 According to the SWD guidelines, SWD staff should conduct four monitoring visits for each of the 41 projects. During January 2013 to March 2015, SWD staff conducted monitoring visits for all 41 projects. In 21 projects, four visits were conducted, whereas in 20 projects, only three visits were conducted.

5.9 Upon enquiry, the SWD informed Audit in September 2015 that, during January 2013 to March 2015, the staff establishment for conducting monitoring visits should be 203 man-months. However, there were only 173 man-months available due to high turnover of contract staff. With a 15% staff shortfall, the SWD adopted a risk-based approach and arranged fewer monitoring visits to NGOs with satisfactory performance. Audit noted that four visits were not conducted for two of the five projects mentioned in paragraph 5.6. In Audit's view, the SWD should enhance its risk-based approach in conducting monitoring visits. More monitoring visits should be conducted for projects with relatively poorer performance, with a view to helping the NGOs concerned improve their performance on a timely basis.

Audit recommendations

- 5.10 **Audit has *recommended* that the Director of Social Welfare should:**
- (a) **regularly collect separate performance data for all Category II services from the NGOs and compile comprehensive performance information covering all service recipients to effectively monitor and evaluate project performance under the IEAPS;**
 - (b) **in monitoring and evaluating the performance of individual projects, pay particular attention to those having relatively poorer performance, ascertain the underlying reasons and take appropriate measures to improve their performance;**
 - (c) **take full account of the past performance of the NGOs in future exercises of commissioning NGOs to provide employment assistance services; and**
 - (d) **enhance the risk-based approach in conducting monitoring visits, visiting more projects with relatively poorer performance.**

Response from the Government

5.11 The Director of Social Welfare agrees with the audit recommendations. She has said that:

- (a) in April 2015, the SWD started collecting separate data for Category II services from the NGOs on a regular basis and compiling comprehensive performance information to monitor and evaluate project performance under the extended IEAPS; and
- (b) the SWD will continue to closely monitor the NGO operators having relatively poorer performance and take appropriate measures to improve their performance. The SWD will also take full account of the past performance of the NGOs in future exercises of commissioning NGOs to provide employment assistance services.

Compliance with guideline requirements

Non-compliance with SWD procedural guidelines

5.12 Audit examination of files and records of Projects A to C revealed instances of non-compliance with the SWD procedural guidelines. Table 11 summarises Audit findings.

Table 11

**Audit findings on non-compliance with SWD procedural guidelines
(Projects A to C)**

SWD requirement	No. of cases	Irregularity
<i>Enrolment of service recipients referred by SWD</i>		
1. NGOs should make initial contact with target service recipients within 3 working days from the date of referral.	14	There was a delay in making initial contact, ranging from 1 to 12 working days.
2. NGOs should interview target service recipients within 15 working days from the date of referral.	3	There was a delay in conducting the interviews, ranging from 1 to 3 working days.

Monitoring and evaluating project performance

Table 11 (Cont'd)

SWD requirement	No. of cases	Irregularity
<i>Provision of Category I, II and III services</i>		
3.	Service recipients should record the progress made in job searching in a Job Seeker's Diary for review by caseworkers of NGOs.	<p>Progress in job searching was not properly recorded or reviewed, including cases in which:</p> <p>(a) Job Seeker's Diaries were not submitted to caseworkers;</p> <p>(b) Job Seeker's Diaries did not show such crucial information as company name or employer's telephone number; or</p> <p>(c) caseworkers did not record that they had verified the Job Seeker's Diaries.</p>
	1	
	10	
	21	
<i>Provision of Category II services</i>		
4.	Service recipients should attend at least 2 work exposure service sessions (3.5 hours each) per week.	Service recipients did not always attend at least 2 work exposure service sessions per week.
5.	Service recipients should complete at least one phase (48 sessions of 3.5 hours each) of work exposure services.	Service recipients did not complete at least one phase of work exposure services.

Source: Audit case studies

5.13 Non-compliance with the SWD procedural guidelines could reduce the effectiveness of the IEAPS in assisting service recipients to secure employment and achieve self-reliance. In Audit's view, the SWD needs to regularly remind the NGOs of the need to comply with the SWD procedural guidelines. The SWD also needs to require its staff to conduct more sample checks during monitoring visits to the NGOs and take appropriate follow-up actions on any irregularities identified.

Audit recommendations

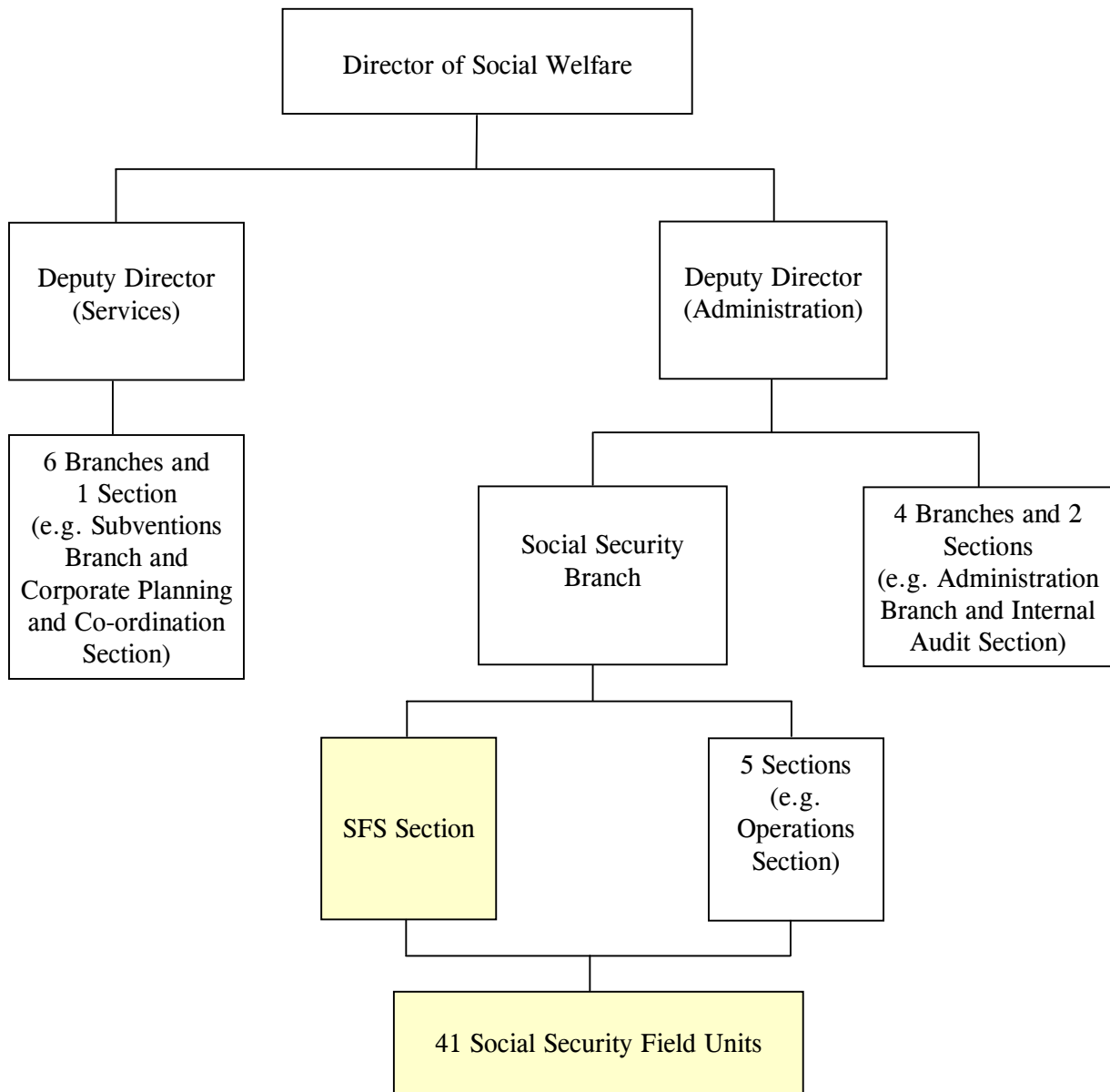
5.14 **Audit has *recommended* that the Director of Social Welfare should:**

- (a) **regularly remind the NGOs of the need to comply with the SWD procedural guidelines; and**
- (b) **require SWD staff to conduct more sample checks on compliance with the SWD procedural guidelines during monitoring visits to the NGOs and take appropriate follow-up actions on any irregularities identified.**

Response from the Government

5.15 The Director of Social Welfare agrees with the audit recommendations.

**Social Welfare Department
Organisation chart (extract)
(30 June 2015)**



Source: SWD records

Acronyms and abbreviations

Audit	Audit Commission
CSSA	Comprehensive Social Security Assistance
FSTB	Financial Services and the Treasury Bureau
IEAPS	Integrated Employment Assistance Programme for Self-reliance
LegCo	Legislative Council
NGOs	Non-governmental organisations
SFS	Support for Self-reliance
SPRs	Stores and Procurement Regulations
SWD	Social Welfare Department

CHAPTER 10

Vocational Training Council

Shine Skills Centre

**Audit Commission
Hong Kong
27 October 2015**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 65 of the Director of Audit contains 10 Chapters which are available on our website at <http://www.aud.gov.hk>

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SHINE SKILLS CENTRE

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SHINE SKILLS CENTRE

Executive Summary

1. It has been the objectives of the Government's rehabilitation policy to facilitate the full integration of persons with disabilities (PWDs) into society. It was estimated that in 2013 Hong Kong had some 589,200 PWDs aged 15 or above. Among them, some 87,100 (15%) were economically active including some 5,500 who were unemployed. The Shine Skills Centre (SSC) is a member institution of the Vocational Training Council (VTC) Group. It is a major institution that provides vocational training to PWDs aged 15 or above for open employment. For the academic year 2014/15, it offered 660 full-time training places and 400 part-time training places.

2. The SSC operates three vocational training sites, namely the SSC (Kwun Tong), the SSC (Tuen Mun) and the SSC (Pokfulam). The programmes and services provided to PWDs by the SSC include vocational assessment service, full-time training programmes, part-time training courses, and the provision of technical aids as well as rehabilitation and boarding services. For the financial year 2013-14, the expenditure of the SSC was \$93 million. As at 31 March 2015, the SSC had an establishment of 155 staff. In April 2015, the Audit Commission (Audit) commenced a review of the operation of the SSC.

Preparing students for open employment

3. *Need to produce more analytical information on graduated students' employment.* The SSC aims to enhance the employability of its students and prepare them for open employment after their graduation. Every year, the SSC conducts an employment survey in January covering graduated students of SSC full-time training programmes (para. 2.2). Audit found that:

- (a) the SSC calculates employment rates of its graduated students by dividing "*the number of graduated students who were in employment*" by "*the number of graduated students who were in employment, obtained a job offer or were seeking employment*". Based on this calculation method, the employment rate for 2013/14 was 94%, which had been reported on the VTC website and to the Finance Committee of the Legislative Council.

Executive Summary

Detailed analysis of the destinations of the graduated students revealed that only 52.1% of them were in open employment or 63.1% in employment. A significant percentage (36.1%) of the graduated students were not in employment for a variety of reasons. To enhance the transparency of reporting how the SSC graduated students fare, the SSC needs to report the detailed destinations of its graduated students (paras. 2.3 to 2.5);

- (b) the Labour Department operates a Work Orientation and Placement Scheme (WOPS). Under the WOPS, employers are granted, up to a maximum of eight months, a monthly allowance for each hired PWD. Of 137 students graduated in 2013/14 who were engaged in open employment, up to January 2015, 89 (65%) worked for a period of eight months or less. Some of their employment could be under the WOPS. The financial incentive provided to their employers could have boosted the employment rate of the graduated students. The SSC does not request graduated students to state in the employment survey whether their employment was under the WOPS (paras. 2.6 to 2.9);
- (c) as at January 2015, there were nine and 20 graduated students in supported employment and working in sheltered workshops respectively. The SSC did not have a structured mechanism for ascertaining and reporting to the SSC management the reasons for these students not having taken up open employment (para. 2.11); and
- (d) the employment survey covers graduated students of the immediate past academic year. The SSC does not conduct further surveys to monitor the students' employment status in the longer term (para. 2.12).

4. ***Provision of career guidance services.*** The SSC has a total of nine Student Counsellors. The SSC has not set benchmarks in respect of the numbers of jobs secured and trial work placements arranged for students by the Counsellors. In 2013/14, the number of jobs secured and placements arranged by two Student Counsellors were much lower (by 39% and 48% respectively) than the average figures for the nine Student Counsellors. The number of jobs secured by another Counsellor was much lower (by 57%) than the average figure (paras. 2.16 and 2.20).

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Management of vocational assessments and training programmes

5. *Timeliness of issuing vocational assessment reports.* Of the 1,153 vocational assessments conducted in 2013/14, in 175 (15%) assessments the PWDs were recommended to receive other services (e.g. attending sheltered workshops of non-governmental organisations) instead of receiving vocational training. For these PWDs, the results and recommendations of the assessments would only be made known to them upon receipt of assessment reports. Releasing early comments on performance in vocational assessments to PWDs would facilitate them to make early alternative arrangements. Audit also found that the assessment reports of 11 (73%) of the 15 specific vocational assessments examined were issued later than the target time of four weeks. The delay ranged from five to 14 weeks (paras. 3.2 to 3.4).

6. *Monitoring of training programmes.* The SSC has not set a target completion rate for individual full-time training programmes. Audit analysed the completion rates of individual training programmes for 2013/14 and found that the completion rates for five programmes were below the overall target completion rate of 80%. Of these five programmes, two were consistently rated by more than half of the graduated students as “fairly relevant” or “not relevant” to their employment. Audit also found that for 2014/15, the overall satisfaction level of graduated students’ employers was 7.7 out of 10. This rating was based on the returned questionnaires of 28 of the 34 employers to whom the SSC sent a questionnaire. Audit noted that the SSC did not send questionnaires to employers of all graduated students. The SSC only sent a questionnaire to those employers who, based on its experience, would be willing to respond to the questionnaire (paras. 3.24 and 3.26).

Administrative issues

7. *Usage of the SSC (Pokfulam) building.* Due to the greater integration of PWDs into mainstream schools and the introduction of the senior secondary school curriculum into special schools, the demand for SSC training places had decreased. The number of training places of the SSC (Pokfulam) decreased from 300 in 2002/03 to 60 in 2014/15. The SSC (Pokfulam) building comprises the ground floor, a podium floor and eight other floors. It has a total net operational floor area of 3,093 square metres. The 2nd floor (391 square metres) and the 7th floor (411 square metres) of the building have been vacant since June 2012 and July 2005 respectively (paras. 4.2 to 4.4).

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8. *Staff recruitment.* Audit examined the 37 recruitment exercises conducted by the SSC in the period 2012-13 to 2014-15 for short-term contract staff. Audit found that in three recruitment exercises, there were neither assessment forms (for recording the performance of candidates during interviews) nor board reports (for summarising the selection process and results). In two of these three exercises, the job applications were also missing (paras. 4.10 and 4.12).

Audit recommendations

9. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Executive Director, VTC should:**

- (a) **consider providing detailed information on the destinations of SSC graduated students on the VTC website and to the Finance Committee of the Legislative Council (para. 2.13(a));**
- (b) **in the employment survey, collect information on the number of graduated students employed under the WOPS and include the information in reporting the detailed destinations of the students (para. 2.13(b));**
- (c) **devise a structured mechanism for ascertaining and reporting to the SSC management the reasons for some SSC graduated students not having taken up open employment (para. 2.13(c));**
- (d) **consider conducting, for graduated students of each academic year, a follow-up employment survey at an appropriate time after the first survey to ascertain the sustainability of the employment of graduated students (para. 2.13(d));**
- (e) **ascertain the reasons for fewer jobs secured and trial work placements arranged by some Student Counsellors and take measures to enhance their output as appropriate (para. 2.22(b));**

Executive Summary

- (f) **consider setting benchmarks in respect of the number of jobs secured and the number of trial work placements arranged by the Student Counsellors and closely monitor the actual performance against the benchmarks (para. 2.22(c));**
- (g) **take measures to ensure that vocational assessment reports are issued to PWDs within the target time (para. 3.5(a));**
- (h) **consider releasing early comments on performance in vocational assessments to the PWDs who are not recommended to receive vocational training to facilitate them to make alternative arrangements (para. 3.5(b));**
- (i) **consider setting a target completion rate for each full-time training programme and take measures to enhance the completion rates of programmes with lower completion rates (para. 3.29(c) and (d));**
- (j) **cover all employers of graduated students, or a representative sample of them, in the employer satisfaction surveys (para. 3.29(e));**
- (k) **take prompt measures to address the issue of vacant floor spaces of the SSC (Pokfulam) building (para. 4.6(a)); and**
- (l) **take measures to ensure that the SSC keeps proper records relating to recruitment exercises (para. 4.13(a)).**

Response from the VTC

10. The Executive Director, VTC agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Government's policy relating to persons with disabilities

1.2 It has all along been the objectives of the Government's rehabilitation policy to help persons with disabilities (PWDs) develop their potential, create a barrier-free environment and enable them to lead an independent life so that they can participate in various activities on an equal basis with others, thereby facilitating their full integration into society.

Definition of PWDs

1.3 There is no uniform definition of PWDs. The United Nations states that the term PWDs is used to apply to all PWDs including those who have long-term physical, mental, intellectual or sensory impairments which, in interaction with various attitudinal and environmental barriers, hinder their full and effective participation in society on an equal basis with others. The Government follows this principle in Hong Kong.

1.4 According to the Labour and Welfare Bureau (LWB), given the diversity of disability types, persons with different disabling conditions may have different needs for rehabilitation services and support. Even persons with the same disabling condition may have different needs for services, having regard to their specific abilities and circumstances at different stages of rehabilitation. To cope with the various needs of persons with different disability types and severity of impairment, there is a need to set out different coverage and service targets under relevant legislation, policies and measures having due regard to their specific objectives, in order to provide appropriate protection, support and services commensurate with their needs. In the Vocational Training Council Ordinance (Cap. 1130), a PWD is defined as a person whose prospects of securing and retaining open employment are reduced by reason of physical or mental impairment.

Introduction

Employment situation of PWDs

1.5 In the Special Topics Report No. 62 “Persons with disabilities and chronic diseases” published by the Census and Statistics Department in December 2014, the Department estimated that in 2013 in Hong Kong:

- (a) there were some 558,000 PWDs aged 15 or above (excluding those with intellectual disability). Among them, some 477,000 (85%) were economically inactive. Of the 81,000 (15% of 558,000) economically active PWDs (Note 1), some 4,800 (6% of 81,000) were unemployed; and
- (b) there were some 31,200 PWDs aged 15 or above (with intellectual disability) residing in households and institutions. Among them, some 25,100 (80%) were economically inactive. Of the 6,100 (20% of 31,200) economically active PWDs, some 700 (11% of 6,100) were unemployed.

Thus, of the some 589,200 PWDs aged 15 or above, some 87,100 (15%) were economically active. Of the economically active PWDs, some 5,500 (6% of 87,100) were unemployed.

Vocational training for PWDs for open employment

1.6 There are a number of institutions that provide vocational training to PWDs for open employment. The Shine Skills Centre (SSC) is a member institution of the Vocational Training Council (VTC) Group. In terms of number of full-time training places, the SSC is a major institution that provides vocational training to PWDs aged 15 or above for open employment (see Table 1).

Note 1: *According to the Census and Statistics Department, economically active PWDs comprise the employed PWDs and the unemployed PWDs. Employed PWDs refer to PWDs aged 15 or over who are engaged in performing work for pay or profit, or have formal job attachment during the seven days before the census. Unemployed PWDs refer to PWDs aged 15 or over who: (a) during the seven days before the census have not had a job and have not performed any work for pay or profit; (b) have been available for work during the seven days before the census; and (c) have sought work during the thirty days before the census.*

Table 1

**Institutions providing vocational training to PWDs
for open employment
(30 June 2015)**

Institution	No. of training places	
SSC	660 400	(Full-time) (Part-time)
Caritas Lok Mo Integrated Vocational Training Centre	220	(Full-time)
Hong Chi Pinehill Integrated Vocational Training Centre	233	(Full-time)
Employees Retraining Board	1,300 (Note)	(Part-time)

Source: Websites of institutions

Note: For the period September 2013 to August 2014, some 1,300 PWDs and persons recovered from work injuries completed the training courses of the Employees Retraining Board.

1.7 In addition to the above institutions, which provide vocational training to PWDs aged 15 or above for open employment, the Selective Placement Division of the Labour Department also provides employment assistance to job seekers with disabilities. In 2014, the Division found job placements for 2,464 (93%) of the 2,650 such job seekers. Furthermore, there are a number of non-governmental organisations (NGOs) that provide PWDs with vocational rehabilitation services to prepare them for potential advancement to open employment.

Introduction

Role of SSC

1.8 According to the Vocational Training Council Ordinance, an objective of the VTC is to provide and co-ordinate the provision of skills training to PWDs who are aged 15 or above for the purpose of improving their employment prospects and preparing them for open employment. The SSC of the VTC provides a range of industry-specific skills training, rehabilitation and support services for PWDs aged 15 or above to enhance their employability. It caters for persons having one or more of the disabilities, namely attention deficit/hyperactivity disorder, autism, hearing impairment, intellectual disability, mental illness, physical disability, specific learning difficulties, speech impairment, visceral disability/chronic illness and visual impairment.

Training places provided by SSC and PWDs enrolled

1.9 Table 2 shows, from 2010/11 to 2014/15 (unless otherwise stated, all years referred to in this Audit Report are academic years, which start in mid-August of a year and end in mid-August of the following year), the number of training places provided by the SSC and the number of PWDs enrolled.

Table 2
Number of training places provided by SSC and PWDs enrolled
(2010/11 to 2014/15)

	2010/11	2011/12	2012/13	2013/14	2014/15
<i>Full-time training programmes</i>					
No. of training places	540	560	600	660	660
No. of PWDs enrolled (Note 1)	540	488	570	656	673 (Note 2)
<i>Part-time training courses</i>					
No. of training places	398	400	400	400	400
No. of PWDs enrolled (Note 3)	387	433	478	385	595

Source: SSC records

Note 1: For full-time training programmes, the number of PWDs enrolled refers to the position as at 30 September of the academic year.

Note 2: The number of PWDs enrolled (673) was greater than the number of training places (660) because the SSC admitted more PWDs to accommodate the applicants in the cohort as the capacity allowed.

Note 3: In 2011/12, 2012/13 and 2014/15, there was greater demand for part-time training courses than the number of planned training places. The SSC therefore organised more part-time training classes for the PWDs.

1.10 PWDs in general do not need to wait for a long time for enrolling into full-time training programmes. As at 30 September 2014, ten PWDs were on the waiting list for enrolment. Four of them enrolled after waiting for three to seven months. The remaining six PWDs had not enrolled for reasons such as already in employment or personal reasons. There was no waiting list for enrolment for part-time training courses.

Introduction

1.11 Table 3 shows the origins of the PWDs enrolled in SSC's full-time training programmes for 2014/15, while Table 4 shows the age profile of the PWDs enrolled.

Table 3

**Origins of PWDs enrolled in SSC's full-time training programmes
(2014/15)**

Origin	No. of PWDs	Percentage (%)
Graduates of special secondary schools (Note 1)	294	44
Graduates (students with special educational needs) of mainstream secondary schools (Note 2)	249	37
Others (Note 3)	130	19
Total	673	100

Source: SSC records and information provided by the Education Bureau

Note 1: For 2014/15, there were 1,038 students in Secondary 6 of special secondary schools.

Note 2: For 2014/15, there were 1,710 students with special educational needs in Secondary 6 of mainstream secondary schools.

Note 3: Others included PWDs' self-applications (56 PWDs) and referrals from NGOs, hospitals, other member institutions of the VTC Group and government departments (74 PWDs).

Table 4

**Age profile of PWDs enrolled in SSC's full-time
training programmes
(2014/15)**

Age	No. of PWDs	Percentage (%)
15-17	84	13
18-20	427	63
21-25	137	20
26-30	11	4
31-40	6	
41-50	4	
51-60	3	
61	1	
Total	673	100

Source: SSC records

SSC training sites

1.12 The SSC operates three vocational training sites, namely the Shine Skills Centre (Kwun Tong) (SSC(KT)), the Shine Skills Centre (Tuen Mun) (SSC(TM)) and the Shine Skills Centre (Pokfulam) (SSC(PF)) (see Table 5 and Photographs 1 to 3).

Introduction

Table 5

Detailed information on SSC training sites

Training site	Year of commencement of operation	Net operational floor area (square metres – m ²)	No. of students (academic year 2014/15)		No. of teaching staff (financial year 2014-15)		No. of Student Counsellors (financial year 2014-15)
			Full-time	Part-time	Full-time	Part-time	
SSC(KT)	1968	2,706	297	354	31	13	4
SSC(TM)	1991	3,425	320	232	31	6	4
SSC(PF)	1995	3,093	56	9	5	2	1
Total		9,224	673	595	67	21	9

Source: SSC records

Photograph 1

SSC(KT)



Source: SSC records

Remarks: The SSC(KT) started its operation in 1968. The VTC took up the operation of the SSC(KT) in 1991.

Photograph 2

SSC(TM)



Source: SSC records

Photograph 3

SSC(PF)



Source: SSC records

Remarks: The SSC(PF) started its operation in a VTC premises in 1995. In 1998, it moved to the existing building.

SSC training programmes and services

1.13 The SSC provides a number of programmes and services to PWDs. These programmes and services are set out in paragraphs 1.14 to 1.22.

1.14 ***Vocational assessment service.*** This service is provided by the Shine Vocational Assessment Service (SVAS) located in the SSC(KT). Before a PWD can attend a full-time training programme, the PWD needs to attend an assessment conducted by the SVAS. The aim of the assessment is to evaluate the PWD's vocational strengths and potential, and suitability for attending the programme. If a PWD is assessed as unsuitable for vocational training, the PWD will be recommended to attend programmes provided by other NGOs (e.g. sheltered workshops and day activity centres).

1.15 The SVAS offers two types of vocational assessments:

- (a) ***specific vocational assessment***, which lasts for three days, is for PWDs who are students or graduates of special schools; and
- (b) ***comprehensive vocational assessment***, which lasts for 11 days, is for PWDs other than students or graduates of special schools.

Some components of a vocational assessment are conducted in small groups and some on an individual basis. In 2013/14, the SVAS conducted 948 specific vocational assessments and 205 comprehensive vocational assessments.

1.16 For part-time training courses, PWDs are required to attend an abridged specific vocational assessment. The assessment is a three-hour assessment conducted in small groups.

1.17 ***Full-time training programmes.*** These programmes are provided at the three SSC training sites. PWDs are not required to pay tuition fees. For 2015/16, there are ten full-time training programmes grouped under three streams:

- (a) *the business stream.* This stream has four programmes, namely office practice, commercial and retailing service, programme assistant practice, and business and computer practice;
- (b) *the technology stream.* This stream has two programmes, namely computer and network practice, and design and desktop publishing; and
- (c) *the service stream.* This stream has four programmes, namely catering service, integrated service (e.g. cleaning, food and beverage service, housekeeping, and gardening), packaging service, and health and beauty care.

1.18 Each of the ten programmes has seven trade modules. For the business and computer practice programme, the training period is one year regardless of the PWDs' backgrounds. For the other nine programmes, the training period is two years for PWDs without previous vocational training or working experience, and one year for PWDs with previous training or experience. In addition to trade modules, each programme has four generic modules, namely Chinese and English, mathematics, whole-person development and physical education.

1.19 Throughout the academic year, PWDs can be admitted to any of the seven trade modules at any time with their training periods starting from the admission dates. Each of the ten programmes has a class size of 15 PWDs. The programme cost is borne entirely by the SSC. For 2014/15, the annual programme cost for a PWD taking full-time training amounted to \$106,620.

1.20 *Part-time training courses.* These courses (e.g. snack making, bakery and pastry service, and elementary digital photography) are provided at the three SSC training sites. They are mainly operated to meet the specific vocational needs of PWDs at the request of NGOs. As most PWDs attending part-time training courses are employed, they are required to pay a tuition fee of \$240 per course (for courses with 15 to 30 training hours) or \$470 per course (for a course with 240 training hours). Tuition fee may be waived for PWDs working in sheltered

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workshops referred to the SSC for attending part-time training courses (Note 2). For 2014/15, the cost of providing part-time training courses by the three training sites amounted to some \$4 million.

1.21 ***Provision of technical aids.*** Technical aids (e.g. assistive devices) are provided to PWDs by the SSC's Shine Technical Aids and Resource Centre (STARC). The STARC has offices located in the SSC(KT) and the SSC(TM).

1.22 ***Other support services.*** Other support services are provided to PWDs at the three SSC training sites. The services comprise:

- (a) supportive rehabilitation services rendered by a multi-disciplinary team of rehabilitation professionals (i.e. nine Student Counsellors, two Occupational Therapists and two Registered Nurses). These services equip the PWDs with life skills (e.g. work adaptation and adjustment skills, interpersonal and community living skills, and knowledge in occupational health and personal hygiene) to prepare them to lead an independent life in the community; and
- (b) boarding service (120 boarding places at the SSC(TM)) and school bus service (available at the SSC(KT) and the SSC(TM)). The boarding service aims to provide an interactive living environment to help PWDs develop social and independent skills. The cost of the boarding service is mainly borne by the SSC. For 2014/15, each boarding place costed \$95,780 (Note 3).

Note 2: *In support of the Education Bureau's initiative to diversify the curriculum of special education, the SSC also offers a variety of Adapted Applied Learning courses for students with intellectual disabilities. As elective subjects in the senior secondary curriculum, the courses aim at providing these students with the opportunities to explore their orientation for career aspirations through practical training in specific areas (e.g. bakery and pastry, and gift wrapping and packaging). The duration of a course is 240 hours spreading over two academic years. The tuition fee for 2015/17 is \$16,600 and is fully paid by the Education Bureau or the schools of the students.*

Note 3: *For 2014/15, the boarding fees were \$10,455 for PWDs receiving disability allowance and \$9,966 for PWDs not receiving disability allowance. PWDs with financial difficulties may apply for fee remission from the SSC.*

Income and expenditure of SSC

1.23 Every year, the Government will agree with the VTC on the amount of subvention for the SSC. For the financial year 2013-14, the Government's subvention was \$97 million while the expenditure was \$93 million. The SSC also had miscellaneous income (e.g. income generated from part-time training courses) amounting to \$1.4 million.

Organisation of SSC

1.24 The SSC is overseen by the Director of the Vocational Training for People with Disabilities Office (VTPDO). The Director reports to a Deputy Executive Director of the VTC. Five managers report to the Director (see Appendix A). As at 31 March 2015, the SSC had an establishment of 155 staff comprising the Director, the five managers, 67 teaching staff, 44 administrative staff and 38 supportive staff.

1.25 The SSC is advised by the VTC's Committee on Vocational Training for People with Disabilities (CVTPD). The objectives of the CVTPD are as follows:

- (a) investigating the need for training sites and advising the VTC on policies relating to vocational rehabilitation;
- (b) investigating the need for new courses at training sites and making recommendations to the VTC; and
- (c) advising the VTC on support services (e.g. the vocational assessment service, and the technical aids and resource service).

The CVTPD comprises a Chairman nominated by a disabled persons organisation and 16 members including the Executive Director of the VTC, government officials, and representatives of NGOs and employers' associations.

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Audit review

1.26 In April 2015, the Audit Commission (Audit) commenced a review of the operation of the SSC. The review has focused on the following areas:

- (a) preparing students for open employment (PART 2);
- (b) management of vocational assessments and training programmes (PART 3); and
- (c) administrative issues (PART 4).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

General response from the VTC

1.27 The Executive Director, VTC agrees with the audit recommendations. She has said that:

- (a) the VTC fully appreciates the Audit Report, which has made very valuable observations and recommendations. The VTC will drive the SSC for a continuous process of improvements; and
- (b) the VTC will follow up the recommendations proactively and implement them as appropriate.

Acknowledgement

1.28 Audit would like to acknowledge with gratitude the full cooperation of the staff of the SSC and the VTC during the course of the audit review.

PART 2: PREPARING STUDENTS FOR OPEN EMPLOYMENT

2.1 This PART examines the assistance provided by the SSC to its students to prepare them for open employment. Audit has found room for improvement in the following areas:

- (a) reporting of information on graduated students' employment (paras. 2.2 to 2.14); and
- (b) provision of career guidance services (paras. 2.15 to 2.23).

Reporting of information on graduated students' employment

Need to enhance transparency of information on how graduated students fare

2.2 The SSC aims to enhance the employability of its students and prepare them for open employment after their graduation (see para. 1.8). Every year, the SSC conducts an employment survey in January covering graduated students of SSC full-time training programmes of the immediate past academic year. Graduated students are requested to complete and return to the SSC a questionnaire regarding their employment information (as at January). Survey findings, including employment rates, are reported to the CVTPD. Employment rates are also reported on the VTC website. Moreover, during their annual examination of the Estimates of Expenditure for the financial years 2011-12 to 2015-16, Members of the Finance Committee of the Legislative Council asked for the employment rates of SSC graduated students. Table 6 shows the employment rates of SSC graduated students for the years 2009/10 to 2013/14.

Table 6

**Employment rates of SSC graduated students
(2009/10 to 2013/14)**

Year	Employment rate (%)
2009/10	82
2010/11	87
2011/12	89
2012/13	86
2013/14	94

Source: SSC records

2.3 The method of calculating the employment rates had been reported to the CVTPD. However, in reporting the employment rates on the VTC website or to the Finance Committee, the method of calculating the employment rates had not been disclosed. Audit noted that the employment rate was a percentage calculated by dividing “*the number of graduated students who were in employment*” by “*the number of graduated students who were in employment, obtained a job offer or were seeking employment*” (see Remarks in Table 7 for an illustration on how the employment rate for 2013/14 was calculated by the SSC).

2.4 With reference to the SSC’s aim to enhance the employability of students for open employment after their graduation (see para. 1.8), Audit reviewed how the graduated students in 2013/14 fared based on the information collected from the SSC’s January 2015 employment survey. Audit’s findings are shown in Table 7.

Preparing students for open employment

Table 7

Destinations of students graduated in 2013/14

	No. of students	Percentage (%)
In employment (open employment)	137	52.1
In employment (supported employment)	9	3.4
In employment (working in sheltered workshops)	20	7.6
Obtained a job offer	1	0.4
Seeking employment	10	3.8
Sub-total	177	63.1
Pursuing further study	33	12.5
Planning for further study	14	5.3
Not in employment or seeking employment due to health or personal reasons	37	14.1
Sub-total	84	36.1
Unknown (Note)	2	0.8
Total	263	100.0

Source: Audit analysis of SSC records

Note: These two graduated students did not return the SSC's employment survey questionnaire.

Remarks: The SSC calculated the employment rate as 94% ($166 \div 177 \times 100\%$). The SSC considers that the employment rate is equivalent to the engagement rate used in the rehabilitation field. All graduates in open employment, supported employment or working in sheltered workshops were classified as being employed.

Preparing students for open employment

2.5 As shown in Table 7, of the 263 students graduated in 2013/14, only 137 (52.1%) were in open employment or 166 (63.1%) were in employment in January 2015. A significant percentage (36.1%) of the graduated students were not in employment for a variety of reasons. Audit noted that while the destinations of students were reported to the CVTPD, they had not been reported on the VTC website or to the Finance Committee. To enhance the transparency of reporting how the SSC graduated students fare, Audit considers that the SSC needs to disclose the detailed destinations of its graduated students on the VTC website and to the Finance Committee.

Need to disclose number of graduated students employed under Work Orientation and Placement Scheme

2.6 The Selective Placement Division of the Labour Department operates a Work Orientation and Placement Scheme (WOPS). Under the WOPS, financial incentives are provided to employers who participated in the WOPS and hired PWDs. Employers are granted, up to a maximum of eight months, a monthly allowance for each hired PWD who has been assessed by the Division as having employment difficulties. For the first two months of the eight-month period, the monthly allowance (up to \$5,500) is equivalent to the actual salary paid to the PWD minus \$500. For the remaining six months, the monthly allowance (up to \$4,000) is equivalent to two-thirds of the actual salary paid. In other words, for the eight-month period, employers may be granted a maximum allowance of \$35,000 per PWD hired. For each hired PWD who has been assessed by the Selective Placement Division as not having employment difficulties, the employers are granted, up to a maximum of six months, a monthly allowance (up to \$4,000) equivalent to two-thirds of the actual salary paid to the PWD. For the period of six months, employers may be granted a maximum allowance of \$24,000 per PWD hired.

2.7 As mentioned in paragraph 2.2, the SSC conducts an employment survey in every January covering graduated students of the SSC of the immediate past academic year. In the survey questionnaire, graduated students are requested to state whether they were in employment in January, and if in the affirmative, since when they had started employment and the names of their employers. The SSC does not request graduated students to state whether their employment was under the WOPS.

2.8 Since the WOPS provides a financial incentive to employers to hire the graduated students and could have boosted the employment rate of graduated students in open employment, it is important for the SSC to monitor their employment for a period beyond the eight-month period covered by the financial incentive (see para. 2.6).

2.9 Audit examined the SSC's January 2015 employment survey of 2013/14 graduated students. Audit found that up to January 2015, 89 (65%) of 137 graduated students (see Table 7 in para. 2.4) who were engaged in open employment had only worked between one month and eight months (Note 4) for their employers. Some of the 89 graduated students' employment could be under the WOPS. As they had worked for only one to eight months, their employers might be still receiving the allowance under the WOPS at the time of the employment survey.

2.10 To improve the usefulness of the survey in providing information on the employability of graduated students, the SSC needs to request the students to state in the survey questionnaire whether their employment is under the WOPS. Those employed under the WOPS should also state whether they have worked beyond the maximum period of the WOPS monthly allowance.

Need to devise a structured mechanism for ascertaining reasons for graduated students not taking up open employment

2.11 As shown in Table 7 in paragraph 2.4, there were nine graduated students in supported employment and 20 working in sheltered workshops. The SSC did not have a structured mechanism for ascertaining and reporting to the SSC management the reasons for these students not having taken up open employment. As the SSC aims to enhance the employability of students for open employment after their graduation, the SSC needs to devise such a mechanism so that timely follow-up action would be initiated where warranted.

Note 4: *As the SSC admits PWDs throughout the year (see para. 1.19), a 2013/14 graduated student may have graduated before the end of the academic year in August 2014 and may have worked for more than six months up to the time of survey in January 2015.*

Need to ascertain the sustainability of graduated students' employment

2.12 As mentioned in paragraph 2.2, the employment survey conducted by the SSC covers its graduated students of the immediate past academic year. The SSC does not conduct further surveys to monitor the students' employment status (e.g. whether still in open employment) in the longer term. To ascertain the sustainability of the employment of the students, the SSC needs to conduct a follow-up employment survey at an appropriate time after the first survey.

Audit recommendations

- 2.13 **Audit has recommended that the Executive Director, VTC should:**
- (a) **consider providing detailed information on the destinations of SSC graduated students on the VTC website and to the Finance Committee of the Legislative Council;**
 - (b) **in the employment survey, collect information on the number of graduated students employed under the WOPS and include the information in reporting the detailed destinations of the students;**
 - (c) **devise a structured mechanism for ascertaining and reporting to the SSC management the reasons for some SSC graduated students not having taken up open employment so that timely follow-up action would be initiated; and**
 - (d) **consider conducting, for graduated students of each academic year, a follow-up employment survey at an appropriate time after the first survey to ascertain the sustainability of the employment of graduated students.**

Response from the VTC

2.14 The Executive Director, VTC agrees with the audit recommendations. She has said that:

- (a) the SSC has started working with the VTC's Statistics Section for the presentation of a more detailed information on the destinations of graduated students; and
- (b) the VTC will consider providing detailed information on the destinations of SSC graduated students on the VTC website, and to the Finance Committee where appropriate.

Provision of career guidance services

2.15 The work of the Student Counsellors of the SSC comprises:

- (a) providing career guidance services to SSC students. These services include sourcing of career opportunities, and provision of career support in the first six months of employment to help graduated students settle into their workplace and ongoing support thereafter for the students on an as need basis; and
- (b) performing other tasks such as providing counselling and guidance to students regarding personal growth and inter-personal relationship, and liaising with employers and students' parents.

2.16 The SSC has a total of nine Student Counsellors, four at the SSC(KT), four at the SSC(TM) and one at the SSC(PF). Each Student Counsellor is responsible for four to five classes. The size of each class is 15 students.

2.17 *Inaccurate information provided to management.* The Student Counsellors are required to submit a monthly return to the Manager of Head Office and SVAS through the Managers of their SSC training sites. The monthly returns provide a statistical summary of the Student Counsellors' various work performed in the previous month.

Preparing students for open employment

2.18 For 2013/14, the nine Student Counsellors reported in the monthly returns that they had secured jobs for 174 students and arranged trial work placements for 270 students. Audit examined the monthly returns and the supporting documents for the statistics concerning the jobs secured and the trial work placements arranged. Audit found that there were inconsistencies between the information contained in the monthly returns and the supporting documents (see Table 8).

Table 8

**Inconsistencies between information contained in
monthly returns and supporting documents
(2013/14)**

	Per monthly returns (a)	Per supporting documents (b)	Overstatement/ (understatement)	
			(c) = (a) – (b) Number	(d) = (c) ÷ (b) × 100% Percentage (%)
Total number of jobs secured	174	209	(35)	(17)
Total number of trial work placements arranged	270	203	67	33
Total	444	412	32	8

Source: Audit analysis of SSC records

These inconsistencies were related to six of the nine Student Counsellors. The SSC needs to take measures to ensure the accuracy of the monthly returns submitted by the Student Counsellors.

2.19 *Low number of jobs secured and trial work placements arranged by some Student Counsellors.* Audit analysed the 2013/14 output of the nine Student Counsellors. Audit found that the number of jobs secured and trial work placements arranged for students by some Student Counsellors were much lower than the average figures for the nine Student Counsellors (see Table 9).

Table 9

**Jobs secured and trial work placements arranged by Student Counsellors
(2013/14)**

Student Counsellor	No. of jobs secured	No. of trial work placements arranged	Total
SSC(KT)			
A	10	40	50
SSC(TM)			
B	14	14	28
C	12	12	24
Average for 9 Student Counsellors	23	23	46

Source: Audit analysis of SSC records

2.20 As shown in Table 9, the number of jobs secured for students by Student Counsellor A was much lower (by 57%) than the average output of 23 though the total number of jobs secured and trial work placements arranged was 50 (above the average of 46). For Student Counsellors B and C, the numbers of jobs secured were lower by 39% and 48% respectively than the average of 23, while the numbers of trial work placements arranged were also lower by 39% and 48% respectively than the average of 23. Furthermore, in examining the output of the Student Counsellors, Audit also noted that the SSC had not set benchmarks for the Student Counsellors in respect of the numbers of jobs secured and placements arranged. For continuous improvement and monitoring purposes, the SSC needs to establish benchmarks for the Student Counsellors to observe and attain.

2.21 The SSC informed Audit that the allocation of students with lower ability to some Student Counsellors was a major reason for fewer jobs secured and trial work placements arranged by the Student Counsellors. Audit considers that the SSC needs to even out the allocation of students with lower ability and ascertain whether there are additional means of enhancing the output of these Student Counsellors.

Audit recommendations

- 2.22 **Audit has *recommended* that the Executive Director, VTC should:**
- (a) **take measures to ensure the accuracy of the monthly returns submitted by the Student Counsellors;**
 - (b) **ascertain the reasons for fewer jobs secured and trial work placements arranged by some Student Counsellors and take measures to enhance their output as appropriate; and**
 - (c) **consider setting benchmarks in respect of the number of jobs secured and the number of trial work placements arranged by the Student Counsellors and closely monitor the actual performance against the benchmarks.**

Response from the VTC

2.23 The Executive Director, VTC agrees with the audit recommendations. She has said that the SSC's Student Counsellors endeavour to develop students' overall attributes and especially in job attitude and life skills through counselling work and close communication with their families and employers.

PART 3: MANAGEMENT OF VOCATIONAL ASSESSMENTS AND TRAINING PROGRAMMES

3.1 This PART examines the management of vocational assessments, full-time training programmes and part-time training courses. Audit has found room for improvement in the following areas:

- (a) timeliness of issuing vocational assessment reports (paras. 3.2 to 3.6);
- (b) provision of training programmes (paras. 3.7 to 3.14);
- (c) admission of students to full-time training programmes (paras. 3.15 to 3.20); and
- (d) monitoring of training programmes (paras. 3.21 to 3.30).

Timeliness of issuing vocational assessment reports

3.2 As mentioned in paragraph 1.14, the SVAS provides vocational assessment service to PWDs. For 2013/14, the SVAS conducted a total of 1,153 vocational assessments (comprising 205 comprehensive assessments and 948 specific assessments). Of the 1,153 assessments, in 978 (85%) assessments the PWDs were recommended to receive vocational training, while in the remaining 175 (15%) assessments the PWDs were recommended to receive other services (e.g. attending sheltered workshops of NGOs). The SSC will admit PWDs who are recommended by the SVAS for vocational training to attend SSC full-time training programmes.

3.3 According to the SSC's guidelines, an assessment report should be given to the PWDs after the completion of a vocational assessment. The results and recommendations of the assessment should not be made known to the PWDs before the completion of the assessment report. To facilitate admission of the PWDs who are recommended to receive vocational training, the SVAS may provide preliminary comments on the PWDs' performance in vocational assessments to the SSC training sites before the completion of the assessment report. However, for PWDs who are recommended to receive other services, the results and recommendations of

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vocational assessments would only be made known to them upon receipt of assessment reports. Releasing early comments on performance in vocational assessments is of particular significance to the latter type of PWDs because it would facilitate them to make early alternative arrangements (e.g. applying to sheltered workshops, which have a long waiting time).

Failure to meet target time for issuing specific assessment reports

3.4 According to the SSC's performance targets, after the completion of vocational assessments, the assessment reports should be issued within four weeks for specific assessments and 14 weeks for comprehensive assessments. For 2013/14, in 175 assessments (comprising 13 comprehensive and 162 specific assessments), the PWDs were recommended to receive services other than vocational training. Audit examination of 20 assessments (comprising five comprehensive and 15 specific assessments) revealed that all the five comprehensive assessment reports were issued on time. However, the assessment reports of 11 (73%) of the 15 specific assessments were issued later than the target time (see Table 10). The delay ranged from five to 14 weeks. There were no documents showing the justifications for the extra time needed to issue the reports.

Table 10

**Time taken by SVAS to issue specific assessment reports
examined by Audit
(2013/14)**

Time taken	No. of reports	Percentage (%)
≤4 weeks	4	27
>4 weeks to 8 weeks	0	0
>8 weeks to 12 weeks	5	33
>12 weeks to 16 weeks	4	27
>16 weeks to 18 weeks	2	13
Total	15	100

Source: Audit analysis of SSC records

Audit recommendations

- 3.5 **Audit has recommended that the Executive Director, VTC should:**
- (a) **take measures to ensure that vocational assessment reports are issued to PWDs within the target time; and**
 - (b) **consider releasing early comments on performance in vocational assessments to the PWDs who are not recommended to receive vocational training to facilitate them to make alternative arrangements.**

Response from the VTC

3.6 The Executive Director, VTC agrees with the audit recommendations. She has said that the SSC is committed to providing efficient vocational assessment services to PWDs and will take measures to ensure that vocational assessment reports are issued to PWDs within the target time.

Provision of training programmes

3.7 To ensure that vocational training meets the needs of students and market demands, the SSC regularly reviews the effectiveness of its full-time training programmes and, in consultation with the CVTPD, makes necessary changes to the programmes. For part-time training courses, NGOs may approach the SSC directly for organising tailor-made courses. For 2013/14, the SSC organised 12 full-time training programmes (involving 43 classes) and 28 part-time training courses (involving 32 classes).

Need to review the relevance of some training programmes to job requirements

3.8 As mentioned in paragraph 2.2, the SSC conducts an annual employment survey to collect information on the employment situation of graduated students of full-time training programmes. The SSC requests graduated students who are in

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employment to rate the relevance of the training programmes they attended to the employment they engaged in by choosing one of the four ratings, namely “very relevant”, “relevant”, “fairly relevant” or “not relevant”.

3.9 Audit examined the latest three employment surveys covering students graduated in the period 2011/12 to 2013/14. Audit found that for four training programmes, in each of the three years, more than 50% of the graduated students chose the two ratings “fairly relevant” or “not relevant” (see Table 11).

Table 11

Four training programmes rated by more than 50% of graduated students as “fairly relevant” or “not relevant” to employment (2011/12 to 2013/14)

Programme	Percentage of graduated students (%)								
	Fairly relevant			Not relevant			Total		
	2011/ 12	2012/ 13	2013/ 14	2011/ 12	2012/ 13	2013/ 14	2011/ 12	2012/ 13	2013/ 14
Programme assistant practice	22	46	23	34	27	69	56	73	92
Computer and network practice	0	80	60	88	0	20	88	80	80
Catering and housekeeping practice	N.A.	67	60	N.A.	33	20	N.A.	100	80
Office practice	58	57	50	5	36	29	63	93	79

Source: Audit analysis of SSC records

Remarks: N.A. denotes that the SSC did not run the training programme in that year.

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- 3.10 Audit considers that the SSC needs to:
- (a) ascertain the reasons why some SSC full-time training programmes were consistently rated by graduated students as only “fairly relevant” or “not relevant” to their employment; and
 - (b) in consultation with the CVTPD, review these training programmes to improve their relevance to the job requirements of the PWDs taking into account the trends of the employment market.

Need to collaborate with more NGOs for provision of part-time training courses

3.11 For the three years 2011/12 to 2013/14, the SSC organised 33, 41, and 32 classes for part-time training respectively. A great majority of these classes were held in collaboration with NGOs, i.e. 28 (85%), 37 (90%), and 32 (100%) for the three years respectively.

3.12 Audit examined the SSC’s collaboration with NGOs for the provision of part-time training courses in the period 2011/12 to 2013/14. Audit found that the SSC collaborated with only a few NGOs (see Table 12). The SSC(PF) only collaborated with one NGO and the SSC(TM) only collaborated with two NGOs each year, whereas the SSC(KT) collaborated with an average of five NGOs each year. To enable more PWDs to benefit from the part-time training courses and to avoid the perceptions of favouritism, Audit considers that the SSC needs to take measures to collaborate with more NGOs for the provision of such courses.

Table 12

**Number of NGOs collaborated with SSC
(2011/12 to 2013/14)**

Year	SSC(KT)	SSC(TM)	SSC(PF)	Total (Note)
2011/12	4	2	0	5
2012/13	5	2	1	6
2013/14	6	2	1	7

Source: Audit analysis of SSC records

Note: The total number of NGOs collaborated does not tally with the number of NGOs collaborated by individual SSC training sites because some NGOs collaborated with more than one SSC training site.

Audit recommendations

3.13 **Audit has recommended that the Executive Director, VTC should take measures to:**

- (a) **improve the relevance of the training programmes to the job requirements of the graduated students; and**
- (b) **collaborate with more NGOs for the provision of part-time training courses by the SSC.**

Response from the VTC

3.14 The Executive Director, VTC agrees with the audit recommendations. She has said that the SSC solicits views from employers and trade participants for continuous improvement of the training programmes. There have also been modifications in teaching materials, training and learning methodologies and placement strategies to form the basis of providing suitable and relevant training to the students.

Admission of students to full-time training programmes

3.15 According to the SSC's guidelines, PWDs applying for full-time training programmes must:

- (a) be aged 15 or above;
- (b) have one or more than one type of disabilities; and
- (c) go through the SVAS's vocational assessment and be classified as suitable for vocational training.

3.16 PWDs fulfilling the above criteria may apply to any one of the three SSC training sites to attend the training programmes. They will receive an intake interview conducted by a Student Counsellor and the Officer-in-charge of the SSC training site the PWDs applied to. The purpose of the intake interview is to:

- (a) discuss and confirm the training programme the applicant should receive;
- (b) get further understanding of the PWD's background and personality; and
- (c) provide further information of the training programme to the PWD.

3.17 If a training place is available, an admission letter specifying the admission date will be issued to the PWDs. Otherwise, an offer letter will be issued to inform PWDs that their applications have been accepted and that the admission date will later be notified when the start date of the training programme has been fixed.

Need to set target time for processing applications

3.18 For 2013/14, 294 new students were admitted to the three SSC training sites to attend full-time training programmes. Audit noted that the SSC has not set a target time for processing PWDs' admission applications. Audit examined the applications of 30 new students to ascertain the time taken to process the applications by measuring the duration between the receipt of an application to the

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issue of an admission/offer letter. Audit's examination revealed that nine (30%) of the 30 applications took more than three months to process (see Table 13), with the longest time taken being 6.4 months. As the SSC admits PWDs throughout the year (see para. 1.19), shortening the processing time could allow PWDs to receive vocational training and subsequently to seek employment earlier.

Table 13

**Time taken by SSC to process 30 applications examined by Audit
(2013/14)**

Time taken	No. of applications	Percentage (%)
≤ 1 month	5	17
> 1 month to 2 months	9	30
> 2 months to 3 months	7	23
> 3 months to 6 months	8	27
> 6 months to 7 months	1	3
	} 9	} 30
Total	30	100

Source: Audit analysis of SSC records

Audit recommendation

3.19 **Audit has recommended that the Executive Director, VTC should set a target time for processing applications for SSC full-time training programmes and monitor the actual time taken against the target.**

Response from the VTC

3.20 **The Executive Director, VTC agrees with the audit recommendation.**

Monitoring of training programmes

3.21 The SSC monitors its full-time training programmes and part-time training courses by:

- (a) ***Annual assessment for full-time training programmes.*** According to the VTC's guidelines for annual assessment, the SSC is required to establish performance indicators for its full-time training programmes. These indicators include:
 - (i) ***completion rate.*** This rate is calculated by dividing “*the number of students graduated*” by “*the number of students enrolled (i.e. graduated and dropped out)*”;
 - (ii) ***student satisfaction.*** This is compiled based on the results of the satisfaction surveys of students at the time of graduation; and
 - (iii) ***employer satisfaction.*** This is compiled based on the results of questionnaire surveys of employers of graduated students;
- (b) ***Class observation for full-time training programmes.*** The Officer-in-charge of each SSC training site conducts class observations for teaching staff to evaluate their quality of teaching. Teaching staff can obtain feedback from the Officer-in-charge for academic and professional development purposes; and
- (c) ***Class evaluation for part-time training courses.*** Questionnaires are sent to students and NGOs concerned after the completion of courses to collect their feedback for enhancing the quality of the courses.

Two training sites did not meet target completion rate

3.22 According to the VTC's guidelines for conducting annual assessment, the target completion rate for full-time training programmes for each SSC training site is 80%. Audit noted that the SSC(KT) and the SSC(TM) did not meet the target completion rate for 2013/14 (see Table 14).

Table 14

**Completion rates of full-time training programmes
of SSC training sites
(2013/14)**

	SSC(KT)	SSC(TM)	SSC(PF)	Overall
Number of students graduated (a)	132	97	34	263
Number of students dropped out (b)	39	29	4	72
Number of students enrolled (c) = (a) + (b)	171	126	38	335
Completion rate (d) = (a) ÷ (c) × 100 %	77%	77%	89%	79%

Source: SSC records

3.23 The VTPDO had asked SSC training sites to investigate the reasons for the dropout cases (see item (b) in Table 14) and draw up an action plan to enhance the completion rate. Audit noted that the reasons for dropping out included “prolonged absence”, “not interested in vocational training”, “to study in another institution”, “to attend day activity centre” and “family or health reasons”. Audit also found that there was no record showing the dropping out reasons for one dropout student of the SSC(KT), nine of the SSC(TM) and the four of the SSC(PF).

Management of vocational assessments and training programmes

The SSC(TM) had drawn up a plan for dealing with dropout cases. The SSC told Audit that the training sites had taken measures to assist students who were going to drop out (Note 5). The SSC also informed Audit that the training sites had investigated all the dropout cases, but they had not established proper procedures for ascertaining and recording the reasons for dropping out. Furthermore, according to the SSC, the SSC(KT) had drawn up an action plan, though it had not documented the plan.

Need to monitor completion rates by individual full-time training programmes

3.24 Audit also noted that no target completion rate had been set for individual full-time training programmes. Audit analysed the completion rates of individual training programmes for 2013/14. Audit found that the completion rates for five programmes were below the overall target completion rate for all programmes of 80% (see Table 15). Two programmes, namely “Office practice” and “Catering and housekeeping practice” warrant the SSC management’s particular attention as in the period 2011/12 to 2013/14 they were consistently rated by more than half of the graduated students as “fairly relevant” or “not relevant” to their employment (see Table 11 in para. 3.9).

Note 5: *For example, in the case of prolonged absence of students, phone calls would be made by the Class Masters to ascertain the reasons for the absence and support services would be provided by the Officers-in-charge and the Student Counsellors to the students.*

Management of vocational assessments and training programmes

Table 15

Completion rates of full-time training programmes (2013/14)

Programme	No. of students			Completion rate (d) = (a) ÷ (c) × 100% (%)
	Graduated (a)	Dropped out (b)	Total (c) = (a) + (b)	
Commercial and retailing service	18	10	28	64
Office practice	25	12	37	68
Catering service	31	12	43	72
Catering and housekeeping practice	9	3	12	75
Health and beauty care	7	2	9	78
Business and computer practice	8	2	10	80
Integrated service	48	12	60	80
Design and desktop publishing	27	5	32	84
Computer and network practice	23	4	27	85
Packaging service	39	6	45	87
Programme assistant practice	20	3	23	87
Massage service	8	1	9	89
Overall	263	72	335	79

Source: Audit analysis of SSC records

Need to cover all graduated students' employers in employer satisfaction surveys

3.25 The SSC conducts employer satisfaction survey by sending out questionnaires to graduated students' employers to gauge their levels of satisfaction (on a rating scale of 1 (least satisfied) to 10 (most satisfied)) on the SSC's full-time training programmes and the students they hired. The VTC's guidelines for annual assessment state that a comparison of the level of satisfaction of the current year with that of the previous years should be made to track the satisfaction level over time.

3.26 According to the results of the SSC's 2014/15 annual assessment, the overall satisfaction level of graduated students' employers was 7.7 out of 10. This was higher than the levels in the previous two years which were both 7.5. Audit noted that the SSC did not send questionnaires to employers of all graduated students. For instance, the rating of 7.7 in 2014/15 was based on 28 returned questionnaires out of the 34 questionnaires sent by the SSC. However, according to the 2013/14 employment survey, 137 graduated students reported that they were in open employment (see Table 7 in para. 2.4). In response to Audit's enquiry, the SSC informed Audit that the Student Counsellors would only send a questionnaire to those employers who, based on their experience, would be willing to respond to the questionnaire.

Need to stipulate guidelines on class observation and evaluation

3.27 The SSC has not stipulated guidelines on the conduct of class observations (for full-time training programmes) and class evaluations (for part-time training courses). In 2013/14, the SSC conducted 33 class observations on its teaching staff. Audit noted that there were inconsistencies in the practices of conducting class observations:

- (a) the SSC(KT) and the SSC(PF) conducted class observations for every teaching staff (27 for the SSC(KT) and 5 for the SSC(PF)); and
- (b) the SSC(TM) conducted only one class observation for one of its 28 teaching staff.

Management of vocational assessments and training programmes

3.28 Among the 32 classes of part-time training courses provided in 2013/14, Audit examined the records of class evaluations for five classes (two each for the SSC(KT) and the SSC(TM), and one for the SSC(PF)). Audit examination revealed that there were inconsistencies as follows:

- (a) the SSC(KT) and the SSC(PF) sent class evaluation questionnaires to all the students that had attended the training courses and all the NGOs that requested these courses; and
- (b) the SSC(TM) only sent questionnaires to the NGOs. None of the students who attended the training courses were sent a questionnaire.

Audit recommendations

3.29 **Audit has *recommended* that the Executive Director, VTC should:**

- (a) **take measures to ensure that the SSC training sites establish proper procedures for ascertaining and recording the reasons for all dropout cases;**
- (b) **take measures to ensure that the SSC training sites draw up formal action plans to enhance the completion rate of SSC students and monitor the effectiveness of the action plans;**
- (c) **consider setting a target completion rate for each full-time training programme;**
- (d) **take measures to enhance the completion rates of full-time training programmes with lower completion rates;**
- (e) **cover all employers of graduated students, or a representative sample of them, in the employer satisfaction surveys; and**
- (f) **stipulate guidelines on class observation for full-time training programmes and class evaluation for part-time training courses.**

Response from the VTC

3.30 The Executive Director, VTC agrees with the audit recommendations. She has said that:

- (a) the target completion rate of 80% had been set as one single rate for all full-time training programmes. The SSC will consider setting a target completion rate for each full-time training programme; and
- (b) the SSC will analyse factors of students capacity, training qualities and exceptional situations and suggest improvement measures on individual programme basis.

PART 4: ADMINISTRATIVE ISSUES

4.1 This PART examines the administrative issues of the SSC. Audit has found room for improvement in the following areas:

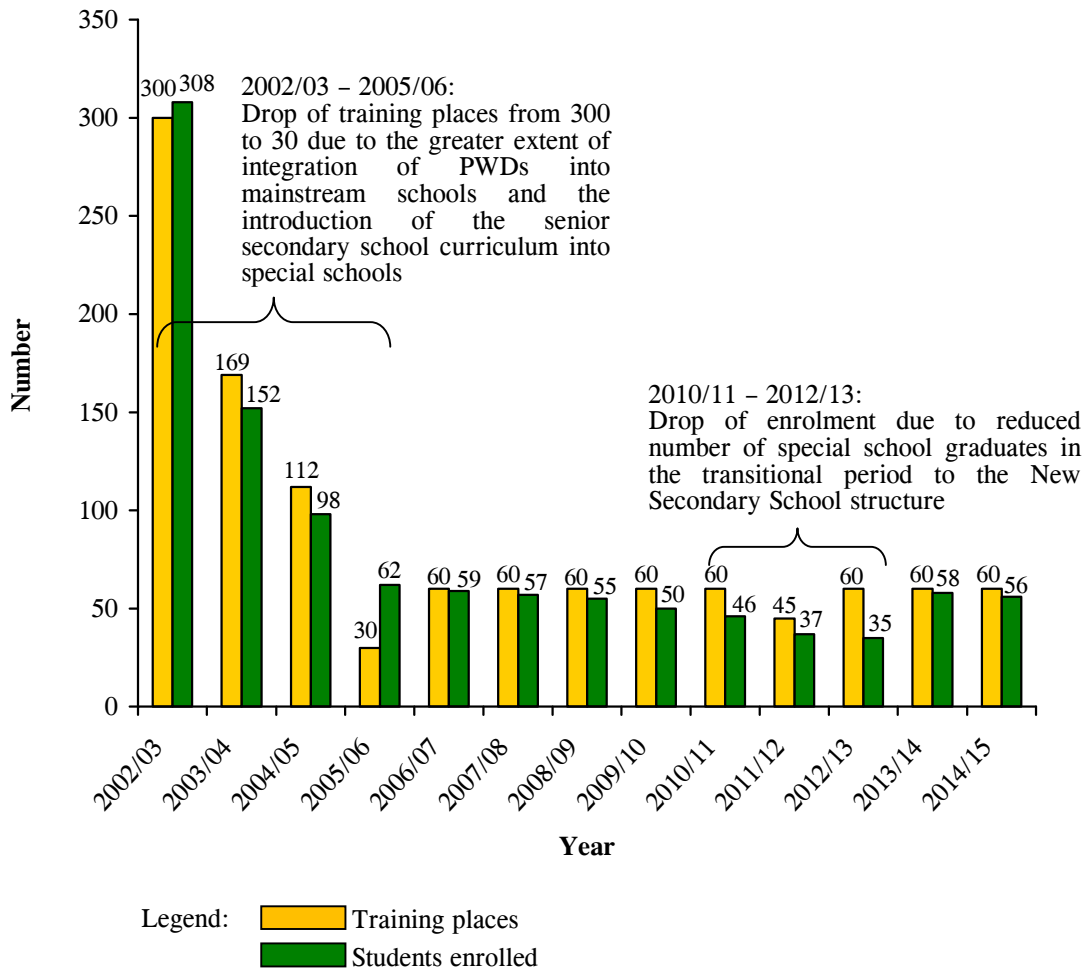
- (a) usage of the SSC(PF) building (paras. 4.2 to 4.8);
- (b) staff recruitment (paras. 4.9 to 4.14);
- (c) continuous professional development (CPD) of staff (paras. 4.15 to 4.20);
and
- (d) inventory control (paras. 4.21 to 4.35).

Usage of the SSC(PF) building

4.2 Due to the greater integration of PWDs into mainstream schools and the introduction of the senior secondary school curriculum into special schools, the demand for SSC training places had decreased. In September 2002, the LWB commissioned a consultancy study to evaluate the cost-effectiveness of the services provided by the SSC. The study, completed in May 2003, found that in anticipation of the reduction of student number owing to the above changes, the SSC(PF) would enrol fewer students and recommended that the SSC(PF) should be closed down. In response to the findings of the study, in July 2005, the SSC(PF) ceased to provide boarding service to its students. Since 2006/07, only four classes remained to cater for the demand of PWDs living on the Hong Kong Island. In April 2010, the SSC conducted a survey to obtain the views of stakeholders (including students of the SSC(PF) and their parents, special schools and mainstream secondary schools) on the future development of the SSC(PF). The survey showed that demand for vocational training for PWDs living on the Hong Kong Island still existed. The numbers of full-time training places and students enrolled in the period 2002/03 to 2014/15 are shown in Figure 1.

Figure 1

Numbers of training places and students enrolled in SSC(PF)
(2002/03 to 2014/15)



Source: SSC records

Vacant floor spaces

4.3 The SSC(PF) building has a total net operational floor area of 3,093 m² (see Table 16). It comprises an entrance lobby on the ground floor, a podium floor with a garden and eight other floors. To make good use of the vacant spaces arising from the reduced enrolment, the VTC had released some floor spaces of the building for use by two NGOs. This arrangement had been agreed by the LWB and the Lands Department had granted waivers for change of land use. Table 16 shows the usage of the SSC(PF) building as at June 2015.

Table 16
Usage of the SSC(PF) building
(June 2015)

Floor	Net operational floor area (m²)	Usage
1st	272	Occupied by the Hong Kong PHAB Association (an NGO) for provision of hostel services to PWDs
2nd	391	Vacant
3rd	564	Occupied by the Hong Kong PHAB Association for provision of hostel services to PWDs
4th	439	SSC(PF)
5th	489	Occupied by Po Leung Kuk (an NGO) for operation of a day activity centre and a hostel for severely mentally handicapped persons
6th	247	
7th	411	Vacant
8th	280	SSC(PF)
Total	3,093	

Source: SSC records

4.4 As shown in Table 16, the 2nd floor (391 m²) and the 7th floor (411 m²) of the SSC(PF) building were vacant as at June 2015. Audit's examination revealed that:

- (a) the 2nd floor had been vacant since June 2012;
- (b) the 7th floor had been vacant since the SSC(PF) ceased to provide boarding service to its students in July 2005; and
- (c) some of the spaces of the two floors had been used for storage of inventories (according to the SSC(PF), some of the inventories were unserviceable items pending disposal).

Inadequate monitoring of usage of spaces

4.5 Audit noted that:

- (a) in September 2010, the VTC proposed to release the 2nd and the 7th floors for use by the Social Welfare Department (SWD). In October 2010, the LWB agreed with the VTC's proposal. The LWB also lined up the SSC and the SWD for direct liaison and impressed upon them the need to expedite action for early handing-over of the floors;
- (b) in April 2015, the VTC intended to withdraw the proposal and sought the LWB's support for remodelling the two floors for enhancing the training for the SSC's students. The VTC proposed to use the 2nd floor as a home-based independent living centre to mock up a hostel environment and the 7th floor as a central kitchen for students' training purposes. In the same month, the LWB enquired with the SWD;
- (c) in May 2015, the SWD informed the LWB that:
 - (i) since February 2011, the VTC had been well aware of the SWD's intention of setting up, for severely mentally handicapped persons, a hostel on the 2nd floor and a day activity centre on the 7th floor; and
 - (ii) despite the SWD's repeated reminders, the VTC had not taken any proactive action to apply to the Lands Department for change of land use; and
- (d) in June 2015, the LWB declined the VTC's April 2015 proposal on the grounds that the two floors had been earmarked since February 2011 for releasing to the SWD for setting up a day activity centre and a hostel for severely mentally handicapped persons, and there had been a constant increase in the demand for such facilities.

Audit recommendations

- 4.6 **Audit has recommended that the Executive Director, VTC should:**
- (a) **take prompt measures to address the issue of vacant floor spaces of the SSC(PF) building;**
 - (b) **closely monitor the usage of the SSC(PF) building and take measures to improve the usage where warranted; and**
 - (c) **monitor the enrolment situation of the SSC(PF) and, in consultation with the LWB, contemplate the way forward for the SSC(PF).**

Response from the VTC and the Government

4.7 The Executive Director, VTC agrees with the audit recommendations. She has said that:

- (a) the SSC(PF) enrolment is largely meeting the planned number of student places which has been in line with the overall SSC planning approved by the LWB; and
- (b) the VTC will monitor the enrolment situation of the SSC(PF) and, in consultation with the LWB, contemplate the way forward for the SSC(PF).

4.8 The Secretary for Labour and Welfare has said that the LWB has always been concerned about the two vacant floors at the SSC(PF) building and would like to put the premises to more productive use, particularly to provide much needed rehabilitation facilities as soon as practicable. In this regard, the Bureau recently convened a meeting on 7 October 2015 with the parties concerned in order to expedite the provision of the planned rehabilitation facilities in the building. The Bureau will continue to keep in view the progress of the matter.

Staff recruitment

4.9 The staff of the SSC comprises full-time staff (on two-year employment terms), short-term contract staff (on one-year employment terms) and part-time staff. The SSC regularly conducts recruitment exercises to fill vacant posts of its staff.

4.10 Individual SSC training sites are responsible for their own staff recruitment. For a recruitment exercise, advertisements are placed in local newspapers, on the VTC website and job websites. According to the VTC's guides on recruitment and human resources matters, applicants are shortlisted for interview according to predetermined shortlisting criteria. A selection board is formed to interview and select candidates for appointment. Assessment forms are used to record the performance of individual candidates during interviews. A board report is compiled to summarise the selection process and results. For recruitment of full-time staff, assessment forms and board reports should be forwarded to the Human Resources Division (HRD) of the VTC for vetting.

4.11 In the financial years 2012-13 to 2014-15, the SSC conducted 91 recruitment exercises (40 exercises for full-time staff, 37 for short-term contract staff and 14 for part-time staff) to fill vacancies arising from retirements and changes in the establishment.

Room for improvement in recruitment exercises

4.12 Audit reviewed the records of the 91 recruitment exercises conducted in the financial years 2012-13 to 2014-15. Audit found anomalies as follows:

- (a) ***Missing assessment forms and board reports.*** For 4 (11%) of the 37 recruitment exercises for short-term contract staff, there were no assessment forms. For another three (8%) exercises, there were neither assessment forms nor board reports (in two exercises, the job applications were also missing). As for recruitment of part-time staff, there was no board report in one of the 14 recruitment exercises. Case 1 illustrates a recruitment exercise for short-term contract staff without both the assessment form and the board report; and

Case 1

Recruitment exercise for short-term contract staff

1. In the financial year 2012-13, the SSC(TM) recruited an Instructor. Audit found that there was only an internal e-mail of August 2012 mentioning the acceptance of offer by the candidate. An offer letter was issued to the candidate in September 2012 and the candidate formally accepted the offer in October 2012.
2. The assessment form and the board report were not available for Audit inspection. Moreover, the job application form of the candidate could not be found.

Source: SSC records

- (b) ***Justifications for offering maximum pay not documented.*** According to the VTC's guides on recruitment and human resources matters, Heads of Operational Units of the VTC (including the Director of the VTPDO) have the discretion to offer a candidate entry salary higher than the minimum pay of a specified pay range to attract applicants of right quality. Nevertheless, the considerations for determining the higher level of salary offered should be properly documented. Audit noted that in recruiting two short-term contract staff (Welfare Workers) by the SSC training sites, the justifications for the approval of offering maximum pay were not documented.

Audit recommendations

- 4.13 **Audit has recommended that the Executive Director, VTC should:**
- (a) **take measures to ensure that the SSC keeps proper records relating to recruitment exercises;**
 - (b) **document properly justifications for the granting of salaries higher than the minimum pay of specified pay ranges to candidates; and**

- (c) **consider the need to conduct sample vetting of assessment forms and board reports for the recruitment of short-term contract staff and part-time staff by the VTC's HRD.**

Response from the VTC

4.14 The Executive Director, VTC agrees with the audit recommendations. She has said that the SSC:

- (a) has been following the staff recruitment guides with due diligence; and
- (b) will take measures to ensure that proper records relating to recruitment exercises are kept.

CPD of staff

4.15 The VTC has launched, since 2010/11, a CPD Scheme to encourage its staff to upgrade and update their professional knowledge and skills through active participation in different forms of professional training and development activities. It is also the VTC's vision that the CPD Scheme would help demonstrate the VTC as a learning organisation.

4.16 The CPD Scheme operates on a non-mandatory basis. Nevertheless, all the VTC's teaching staff together with some other designated staff (e.g. Education Development Officers and Student Affairs Officers) are encouraged to attain not less than 40 CPD hours (Note 6) within two consecutive years. In around September each year, the VTC's HRD issues an e-mail to all the staff covered by the CPD Scheme reminding them to update their CPD records. The CPD records are captured in the VTC's Human Resources Management Information System (the System). Staff can access the System to keep track of the progress in attaining CPD. Based on the data maintained in the System, the VTC's HRD compiles

Note 6: *CPD hours include time spent on attending training courses, conferences and seminars. Other activities such as reading of relevant professional journals and voluntary services to professional bodies can also be counted as CPD hours.*

Administrative issues

annually CPD information for perusal by the VTC's Staff Development Committee (Note 7). The Committee forwards the CPD information to respective Heads of Operational Units to enable them to facilitate and encourage their staff's participation in CPD activities.

Unsatisfactory fulfillment of CPD hours

4.17 As at 31 August 2014, there were a total of 63 SSC staff under the CPD Scheme who had been in service for two consecutive years (i.e. 2012/13 and 2013/14). Audit examined their CPD records in the two years. Audit found that 34 (54%) of the 63 staff had in fact attained 40 or more CPD hours. The remaining 29 (46%) staff, however, had attained less than 40 CPD hours. Among these 29 staff, 4 (6.4% of 63) staff had not attained any CPD hours at all (see Table 17).

Table 17

**CPD hours of 63 SSC staff
(2012/13 and 2013/14)**

CPD hour	No. of staff
0	4 (6.4%)
> 0 and < 10	4 (6.4%)
≥ 10 and < 20	6 (9.5%)
≥ 20 and < 30	5 (7.9%)
≥ 30 and < 40	10 (15.8%)
≥ 40	34 (54.0%)
Total	63 (100%)

} 29
(46%)

Source: Audit analysis of SSC records

Note 7: *The VTC's Staff Development Committee advises the Executive Director of the VTC on matters relating to staff development. The Committee comprises a chairman (a Senior Assistant Executive Director of the VTC) and 19 members representing various Heads of Operational Units of the VTC (including the Director of the VTPDO).*

4.18 Audit reviewed the records of the 29 staff who had attained less than 40 CPD hours. Audit found that 25 (86%) of them were full-time staff employed on permanent employment terms (VTC staff employed before 1 April 2004), while 4 (14%) were on two-year employment terms (VTC staff employed on or after 1 April 2004).

Audit recommendations

4.19 **Audit has recommended that the Executive Director, VTC should:**

- (a) **step up efforts in encouraging those SSC staff who did not attain 40 CPD hours within two consecutive years to actively participate in CPD activities; and**
- (b) **monitor the attainment of CPD hours by SSC staff.**

Response from the VTC

4.20 The Executive Director, VTC agrees with the audit recommendations. She has said that the SSC:

- (a) has made conscious efforts in arranging for a wide range of staff development programmes covering areas such as rehabilitation tools, competency-based curriculum, and teaching and learning package development; and
- (b) will monitor the attainment of CPD hours by SSC staff.

Inventory control

4.21 As at 31 July 2015, the value of the SSC's inventories amounted to some \$20 million. Audit examined the SSC's control of inventories. The irregularities identified by Audit are set out in paragraphs 4.22 to 4.33.

Irregularities in SSC stocktaking

4.22 According to the VTC’s Stores Manual and inventory guidelines, member institutions are required to conduct annual stocktaking in each financial year. Member institutions are also required to report results of the stocktaking to the Chief Supplies Officer of the Supplies Section of the VTC before the deadlines (usually in November or December of a financial year) specified by him.

4.23 ***Annual stocktaking not always conducted.*** Audit examined the stocktaking conducted by the five branches (i.e. the SSC(KT), the SSC(TM), the SSC(PF), the STARC and the SVAS) of the SSC in the financial years 2010-11 to 2014-15. Audit’s findings are shown in Table 18.

Table 18

**Conduct of stocktaking by SSC’s five branches
(Financial years 2010-11 to 2014-15)**

Branch	2010-11	2011-12	2012-13	2013-14	2014-15
SSC(KT)	✓	✓	✗	✓	Note
SSC(TM)	✓	✓	✓	✓	✓
SSC(PF)	✓	✓	✓	✓	Note
STARC	✗	✓	✓	✓	✓
SVAS	✓	✓	✗	✓	✗

Source: Audit analysis of SSC records

Note: The stocktaking was conducted in May 2015, that was not within the financial year as stipulated (see para. 4.22).

Remarks: ✓ denotes stocktaking conducted
✗ denotes stocktaking not conducted

4.24 ***Stocktaking not satisfactorily conducted.*** In May 2015, the SSC(KT) conducted a stocktaking (see Note to Table 18). The stocktaking revealed that 109 inventory items in a room on the ground floor (with a total replacement cost of \$11,815) were missing (e.g. a video cassette recorder and a portable electric air pump).

4.25 In June 2015, the Manager of the SSC(KT) sought approval from the VTC's Deputy Executive Director to write off these items. In seeking the approval, the Manager explained that these items were damaged in a flooding incident happened to the ground floor in May 2013 and were disposed of promptly. As it was in a rush to tidy up the ground floor, stock condemnation procedures had been overlooked and therefore these items were not deleted from the store records. In the same month, the write-off was approved.

4.26 Audit noted that the room in question had been selected for checking in the stocktaking for the financial year 2013-14. In that stocktaking conducted in October 2013, the SSC(KT) reported in the stocktaking report that all the inventories in the room were in order but had not recorded the items actually checked. Therefore, Audit could not ascertain whether the missing items had been selected for checking and the checking team did not discover the absence of the items or the items had not been selected. In this connection, in examining the stocktaking exercises conducted by the five branches, Audit noted that among the five branches, the SSC(PF) was the only branch that had maintained proper stocktaking records (e.g. recording the inventories that had been checked in stocktaking).

Irregularities identified in Audit's inventory checks

4.27 In the period June to August 2015, Audit conducted inventory checks at the five branches (see para. 4.23) of the SSC. Audit's findings are set out below.

4.28 ***Missing/wrong barcode labels on inventories.*** To facilitate inventory control, the SSC attaches scanable barcode labels to inventories. Audit found that of the 273 inventory items (involving all the five branches) selected for checking:

- (a) the barcode labels on 65 (23.8%) items were missing; and
- (b) the barcode labels on 2 (0.7%) items were wrong.

4.29 ***Goods received not timely recorded.*** Audit checked the goods listed on 75 purchase orders (15 orders for each of the five branches) to the store records. These orders were placed in the financial year 2014-15 and the goods had been received and became inventories of the SSC.

Administrative issues

4.30 The 75 purchase orders involved a total of 173 inventory items. Audit found that of the 173 items:

- (a) as at the time of Audit's checking, five items of the SSC(PF) and two items of the SVAS had not been recorded in the store records. Subsequent to Audit's enquiry, the SSC(PF) and the SVAS rectified the irregularities; and
- (b) 96 items (excluding the seven items mentioned above had not been recorded in the store records in a timely manner. Of these 96 items:
 - (i) 74 items (77%) were recorded more than one month to six months after receipt of goods from the suppliers; and
 - (ii) 22 items (23%) were recorded more than six months to 11 months after receipt of goods from the suppliers.

Unsatisfactory loan records maintained by STARC

4.31 The STARC loans technical aids to SSC students (Note 8) to improve their functional adaptation in study and their functional livings. Technical aids include hearing aids, electric wheelchairs, and Braille display device (for people with visual impairment). According to the STARC's loan regulations:

- (a) students need to submit an application form for borrowing technical aids for up to six months. For renewals, they need to submit a new application (for up to another six months); and
- (b) students must return the borrowed technical aids within six months after graduation.

Note 8: *Students with special educational needs who are studying in the mainstream programmes of the VTC may borrow technical aids from the STARC.*

4.32 The STARC has offices located in the SSC(TM) and the SSC(KT). Although the STARC has two offices, it keeps a loan register at the Tuen Mun office only. The Tuen Mun office manually inputs all movements (i.e. issuing/renewing and returning) of technical aids into the loan register. For movements of technical aids of the Kwun Tong office, the Tuen Mun office inputs the movements manually into the loan register basing on the students' application forms faxed from the Kwun Tong office.

4.33 Audit examined the loan register and the 219 students' application forms involving 510 loaned items for 2013/14. Audit found that:

- (a) for the Tuen Mun office, 42 renewals and 58 returns of loaned items had not been recorded in the loan register. For the Kwun Tong office, 50 renewals and 65 returns of loaned items had not been recorded in the loan register; and
- (b) as a result of the unrecorded renewals and returns, it was difficult for the offices to follow-up overdue cases (i.e. items not returned after six months) and to keep track of what items were actually in the offices or loaned out. Audit noted that as at late August 2015, 13 students had not returned the technical aids after graduation. They had borrowed these items for three to some 14 years.

Audit recommendations

4.34 **Audit has recommended that the Executive Director, VTC should:**

- (a) **take measures to ensure that the SSC conducts annual stocktaking in accordance with the VTC's requirements;**
- (b) **require the VTC's Supplies Section to follow up on those SSC branches which have not reported the results of annual stocktaking before the deadlines specified by the Chief Supplies Officer;**
- (c) **take measures to ensure that SSC branches maintain proper stocktaking records (e.g. recording the inventories that have been checked in stocktaking);**

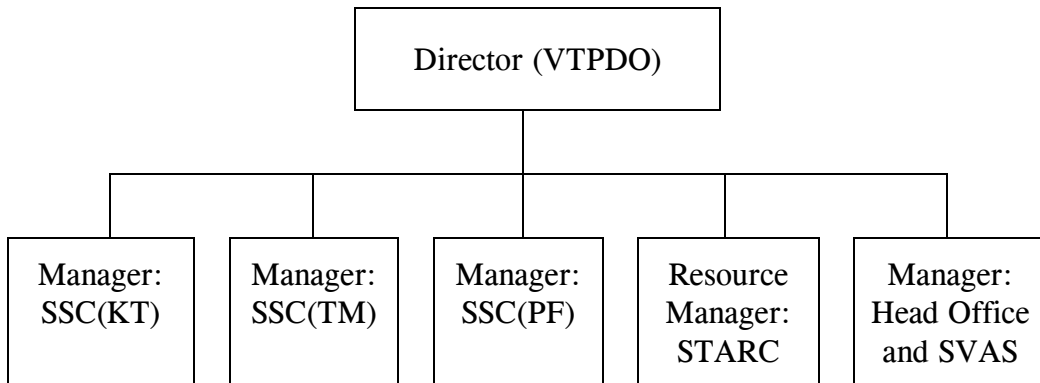
Administrative issues

- (d) take measures to ensure that correct barcode labels are attached to all the SSC's inventories;**
- (e) take measures to ensure that goods received from suppliers by the SSC are recorded in the store records in a timely manner;**
- (f) ask the STARC to record the movements of technical aids in the loan register in a timely manner;**
- (g) ask the STARC to locate its technical aids (that had been renewed or returned but had not been recorded in the loan register) and to take appropriate action to follow up the overdue items, and to update the loan register promptly for renewals and returns; and**
- (h) consider devising a more effective system to control the movements of the technical aids.**

Response from the VTC

4.35 The Executive Director, VTC agrees with the audit recommendations. She has said that the SSC has taken immediate measures to improve on the stocktaking and recording process and arranged additional staff training to support the improvement measures.

**Shine Skills Centre
Organisation chart (extract)
(31 March 2015)**



Source: SSC records

Remarks: The Director (VTPDO) reports to a Deputy Executive Director of the VTC.

Appendix B

Acronyms and abbreviations

Audit	Audit Commission
CPD	Continuous professional development
CVTPD	Committee on Vocational Training for People with Disabilities
HRD	Human Resources Division
LWB	Labour and Welfare Bureau
m ²	Square metres
NGOs	Non-governmental organisations
PWDs	Persons with disabilities
SSC	Shine Skills Centre
SSC(KT)	Shine Skills Centre (Kwun Tong)
SSC(PF)	Shine Skills Centre (Pokfulam)
SSC(TM)	Shine Skills Centre (Tuen Mun)
STARC	Shine Technical Aids and Resource Centre
SVAS	Shine Vocational Assessment Service
SWD	Social Welfare Department
VTC	Vocational Training Council
VTPDO	Vocational Training for People with Disabilities Office
WOPS	Work Orientation and Placement Scheme